FINANCIAL TIMES



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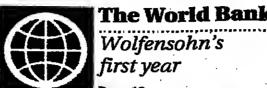


Hopes for an ob gene

Technology, Page 10

Russian capitalism

from free markets





Today's surveys Croatia

Air France talking | EU chief's attack coincides with call for information over baby milk formula scare to four US airlines over an alliance

Air France is in discussions with at least four leading US airlines about a possible transtlantic alliance. The four are American Airlines - which is discussing what industry sources suggest may be a far-reaching accord with British Airways - United Airlines, Delta Air Lines and Continental Airlines The French state-owned carrier, which is expected to be privatised late next year or early in 1998, recently revealed it had cut net losses before restructuring costs to less than FFr1 2bo (\$230m) in 1995-96 - excluding its domestic partner, Air France Europe. Page 15; American airlines' integration

French prepare for telecoms sale: The French cabinet has paved the way for the sale early next year of shares in France Telecom. the stateowned telecoms supplier valued at between FFr130bn (\$25.3bn) and FFr200bn. Page 14

Eurotunnel, the Anglo-French operator of the Channel tunnel, announced it is to halve its standard return fare over the summer to £129 (\$196). intensifying the price war oo travel between France and England. Page 8; Lex, Page 14

Snecma head dismissed: The French government dismissed Bernard Dufour as head of its state-owned Snecma aero-engine company following his recent row with General Electric, Snecma's long-term US partner. Page 16

Greece cancels talks with Turkey: Greece called off talks with Turkey over disputes in the Aegean, claiming e meeting "would not be useful under present conditions". Page 2

Europe slips in global competition: Singapore, Hong Kong and New Zealand top the list of the world's most competitive countries, ahead of the US, while European Union countries are slipping behind many parts of the world, according to a report by Geneva-based World Economic Forum.

Albanian election criticised: The US joined criticism of Sunday's Albanian elections as calm returned to the capital Tirana after clashes between police and demonstrators. Page 2

Telecom Eireann, the Irish state-owned telecommunications company, reported a 137 per cent rise in profits for the year to I£116m (\$180m) from I£49m in 1995. Page 17

Taiwan in \$3.8bn China deal: Taiwan's biggest industrial group, Formosa Plastics, is believed to have finalised a deal to build a US\$3.8bn thermal power plant in China, only two months after a tense military stand-off between Beijing and

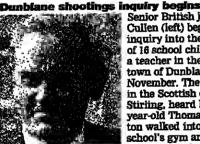
Japanese sales lift Mitsubishis Cost-cutting and higher sales in the domestic market helped Mitsubishi Motors post record profits on a non-consol dated basis last year but consolidated profits fell from Y95.9bn (\$913.33m) to Y7L9bn. Page 18

Red Cross calls for N Korean aid: The International Federation of the Red Cross and Red Crescent Societies appealed for \$5.25m in aid to North Korea to prevent famine and belp 130,000 victims of floods which swept the country last July

Bosnian soldier charged with war crimes: The United Nations criminal tribunal for former Yugoslavia in The Hague charged Bosnian Serb army soldier Drazen Erdemovic with involvement in a massacre during the Serb takeover of the Moslem enclave of Srebrenica in July 1995.

UN honours Saro-Wiwa: Nigerian author and activist Ken Saro-Wiwa was posthumously elected to the United Nations Environment Programme's roll of hooour for advancing the cause of enviroomental protection.

Pressure on cities: More than half the world's people will be living in urban areas in 10 years' time, with the biggest increase in in developing countries, e United Nations report said.



Senior British judge Lord Cullen (left) began an inquiry into the shooting of 16 school children and a teacher in the Scottish town of Dunblane last November. The inquiry. in the Scottish city of Stirling, heard how 43year-old Thomas Hamilton walked into a local school's gym and began

is expected to last about two months.

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Strange mutations



The World Bank Wolfensohn's

Luxembourg

THURSDAY MAY 30 1996

Santer hits at UK disruption policy

By Caroline Southey in Brussels and James Harding and James Blitz in London

Mr Jacques Santer, president of the European Commission, yes-terday turned on Britain for dis-rupting EU business, calling the UK government's week-old policy of non-co-operation "deplorable". In the first public sign that Brussels is losing patience with the British government's behav-iour in the EU, Mr Santer issued a hard-hitting statement, accus-ing Britain of "taking hostage" EU business not related to the

beef crisis. Mr Santer's attack reducing the size of their fishing coincided with a demand that the UK furnish the Commission with information about baby milk formule, a request that could embarrass the government as it seeks to recover from the scare over potentially harmful chemicals in baby milk.

A third potential flashpoint between the UK government and the Europeao Commission emerged when Mrs Emma Booino, fisheries commisaioner, warned that the EU might impose sanctions egainst couptries failing to meet targets for

fleets. Britain is one of the countries that is furthest behind its target.
Cooservative Eurosceptics

were furious at all three initiatives, claiming the Commissioo's action was "an assault on Westminster". But an EU official dismissed the notion that the Commissioo had co-ordinated an attack on the UK as "absurd". "in no way whatsoever ere the three things linked," he said.

Mr lain Duncan-Smith, a Euro-sceptic, suggested that Mr San-ter's comments were a cause for

UK government'a policy was working. "The government should realise that this non-co-operation policy - if it is to work has to solicit this sort of

response," he said.
Pro-European Tories were alarmed by Mr Santer's comments, fearing that Mr John Major, UK prime minister, would now be forced to persist with the non-co-operation policy longer than be had intended in order not to appear to have bowed to the Commission.

But Mr Roger Freeman, the

cabinet minister co-ordinating egy, insisted that the UK would not back down until EU colleagues accepted what the Commission had already accepted that British beef is safe.

Although Mr Santer made no

mention of taking legal action against Britain, EU officials refused to rule out the possibil-ity, pointing out that the UK could be contravening Article 5 of the Treaty of Rome which says that members of the unioo "shall ebstain from any measure which could jeopardise the attainment

Mr Santer's comments were prompted by the refusal of British ministers to endorse 12 agree ments at council of minister meetings on Tuesday. "This attitude is not appropriate in a com-munity based on the rule of law," Mr Santer said.

EU officials said the word "blackmail" was used frequeotly by Commissioners during the debate at yesterday's weekly

Scares spark calls for US-style

Early exit polls in **Israel show** Peres with slim lead

By Julian Ozanne in Jerusal and David Gardner in Nazareth

Exit polls released after voting ended in Israel's crucial elections vesterday showed the result as being too close to call, although prime minister Mr Shimon Peres was predicted to have a narrow lead over Mr Benjamin Netanyahu, his rightwing rival.
An exit poll released by an

Israeli television channel after polling stations closed suggested that Mr Peres, who campaigned on continuing peacemaking with Arab neighbours, had won 50.7 per cent of the vote compared to 49.3 per cent for Mr Netanyahu in the race for the premiership. A separate television poll also gave Mr Peres the same thin lead. Pollsters immediately cau-

tioned against the accuracy of fought race, and said the margin of error was too large for them to make an accurate forecast. They said a clear cut winner might not emerge for 48 hours.

The two exit polls also indi-cated that the Labour party of Mr Peres and the Likud bloc of Mr Netanyahn would lose seats in the separate race for the 120member parliament to smaller parties, suggesting that each would face difficulty in negotiating a post-election coalition.

One of the television polls showed Labour taking 37 seats and Likud 31, while the other exit poll suggested that Labour would win 35 seats to 32 for Likud. Labour won 44 seats and Likud 40 at the last election in 1992. "We are happy and it is signifi-

cant because the peace process will continue. It won't be stopped," said Mr Efraphim Sneh, bealth minister in the present government, on hearing the exit poll results.

The US, western nations and Arab neighbours have backed Mr Peres and hie party's drive to complete the peace process, now at a critical halfway mark. The turnout of the 3.9m elector-

ate was beavy, with the Central Elections Committee reporting that 71 per ceot of those eligible had voted two bours before polling stations closed. It said this was about 3 per cent more than had cast ballots by the same time in the 1992 election. Total turnout in that vote was 77.4 per cent.
In the last bour of voting,
Israeli Arab politicians in Nazareth made desperate efforts, appealing in mosques and on Jor-danian television, to muster 50,000 extra votes after a low turnout by the Arab community.

which heavily supports Mr Peres. Mr Peres said the election was the most important since the creation of Israel in 1948 because it presented voters with a clear choice about the future course of

the country to 2000. "It is clear choice of the future - between going forward to peace for the future geoerations or going to [Jewish] aettlements. confrontation and violence," be said. "I hope the nation will



party elections in Northern Ireland Report, Page 14

officials filed documents to the

state prosecutor's office after the

A KHD spokesman said what had happened appeared to amount to a "serious fraud" and

losses were uncovered on Friday.

to involve the "gross manipula-

tion of the accounts with the aid

of third parties ontside the com-

If KHD one of the best known

names in German engineering,

does go bankrupt, it will be the

second major blow for Germany's

engineering industry in as many

Fraud probe opens into hidden losses at German group

German state prosecutors opened fraud investigations yesterday against 15 executives and suppliers of Klöckner-Humboldt-Deutz, the German engineering and plant group which is threatened with bankruptcy after discovering hidden losses of DM650m (\$428m).

Deutsche Bank, Germany's largest bank, which owns 47.7 per cent of the beleaguered company after spending DM500m to bail it out last year, said it was in talks with KHD's management and about 60 other banks owed

money by the company.

Given that KHD's own equity has shrunk to DM298m following a series of restructurings in recent years, bank executives said the options were limited. "Either new capital is injected or KHD has to declare it's bankrupt," one said.

There was speculation last night that the banks would meet later this week, but executives suggested it might take longer to find a solution for KHD, which employs 9,425 people. The oew losses mean the group's debt will increase from the present DM1bn to above DM1.5bn. The investigation began when the company's administration

Bremer Vulkan, Germany'a biggest shipbuilding and engineering group, was declared bankrupt last month because - like KHD - it had been taking orders at prices which did not cover costs.

Ms Regine Appenrodt, a state prosecutor in Cologue where KHD has its headquarters, said the company had submitted documants showing it would lose DM650m from three plant contracts in Saudi Arabia. The company said the contracts were worth between DM200m and DM500m each and

that Mr Anton Schneider, chief executive, bad flown to Saodi Arabia immediately after the losses had emerged in an effort to

Continued on Page 14

to open Asian

for the opportunity to host the world's largest vehicle builder. The \$750m investment, expec-ted to be accompanied by a further \$250m from some of GM's suppliers, is the centreplece of

General Motors

the company's aggressive new push into the east Asian vehicle market, where Japanese compa-GM hopes to double its share of

the Asian market to 10 per cent by 2005, which will mean selling Im more vehicles annually in the region than it does at present.

cars for GM. The US vehicle builder will

and South Korea. Thai officials suggested GM'e decision was "a natural one" and

base in Thailand

By Ted Bardacke in Bangkok

General Motors of the US will announce today that it has chosen Thailand over the Philippines as the location for its Asian motor vehicle manufacturing

The move ends an 18-month battle between the two countries

The Thailand plant, along with a planned facility in China, will produce the bulk of these

become the 12th international company to produce vehicles in Thailand, which is already Asia's fourth largest vehicle market and manufacturer after Japan, China

a "confirmation" that Thailand

was south-east Asia's regional vehicle centre.

By the end of the decade, all the main Japanese and US vehicle makers are expected to be exporting from the country.

in the past year, Honda began prodoction of its new "Asian car" in Thailand and Ford-Mazda announced a \$500m plant there to produce pick up trucks for the entire region. Ford has receotly hinted it will expand the line to include passenger cars.

For the Philippines, GM's selection of Thailand is a heavy blow, especially to Mr Fidel Ramos, Philippine president, who personally and publicly lobbled Mr Jack Smith, GM chairman and chief executive, to set up his company's Asian base in the country.

The Philippines had offered GM special incentives, including free tariff incentives, increased infra-structure spending on ports adja-cent to the proposed factory site, and the funding of a \$20m training school.

"Had they not offered so much, they wouldn't bave been as close as they were," said a GM executive of the Philippines.

"There was a good business case for both locations," the

Cootinned on Page 14

April 1996. This announcement appears as a matter of record only BHF Charterhouse CCF



£142 million sale of WH Smith Business Supplies Limited

Guilbert

Charterhouse Bank Limited advised WH Smith Group plc



rmoner Ross St Paul's, London EC4M 7DH.

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Greece cancels

Greece yesterday called off talks between its foreign minister, Mr Theodoros Pangalos, and his Turkish counterpart. Mr Emre Gonensay, claiming talks "would not be useful under

The announcement came the day after Greek officials said a

Turkish warship collided with a Greek coastguard patrol boat near the disputed Imia islets in the eastern Aegean. No

Greece is reluctant to accept a Turkish offer of direct talks

present conditions". The foreign ministers were to discuss

Greek-Turkish disputes in the Aegean ou June 3, during a Nato ministers' meeting in Berlin.

injuries were reported, but the Greek vessel was damaged.

almost clashed over Imia in January.

Greek officials said bilateral contacts were not likely to

resume until Turkey's government crisis is resolved.

international Court of Justice to settle the quarrel over

sovereignty in the Aegean.

**Erin Hope. Ath

Turkey's parliament will convene in special session next

Monday to discuss a censure motion by a pro-tslamic party seeking 10 topple the centre-right coalition.
The no-confidence vote could take place as early as the end

on various disputes until Turkey agrees to ask the

Tension in the area has been high since Greece and Turkey

Turkish talks

EUROPEAN NEWS DIGEST

Paris in plan to share military burden

By Michael Lindemann in Bonn

Germany is drawing up plans with France for closer military co-operation, Mr Volker Rühe, Germany's defence minister, said yesterday, following what he called France's "revolutionary" decision to change from a conscript army to a smaller

professional force.

The plans - an outline of which will be be presented at the bi-annual Franco-German summit in Dijon on June 5 – would involve Germany agree-ing to maintain Europe's largest conscript army while France's professional forces would shoulder the main responsibility for military intervention outside Europe.

Mr Rühe's comments come just weeks after President Jacques Chirac and Chancellor Helmut Kohl agreed to regular meetings to discuss closer defence co-operation.

Europe's two biggest armies have been co-operating for several years on projects to huild attack helicopters and other

They have also created a joint unit, the Franco-German hrigade, part of the five-nation Eurocorps, hased in Stras-

bourg, eastern France. Closer Franco-German co-operation gives Mr Rühe a timely justification for maintaining the 340,000-strong Bundeswehr which several defence analysts expected to have been cut to a smaller professional force because of savings in Ger-

many's defence hudget. While German defence ministry officials emphasised that closer co-operation would only take place within the context of the North Atlantic Treaty Organisation, the latest Franco-German venture is bound to arouse some anxiety in the US and the UK, both of which view closer European co-opera-tion as a potential threat to transatlantic military ties.

Mr Rühe was careful to stress that Germany and France were working on an "agreed plan", an apparent reference to Germany's concern that France had opted for a professional army earlier this year without consulting its most important ally.

The Bundeswehr, he said, could rapidly be doubled to 680,000 if it was maintained or a conscript basis.

As Europe's largest armed forces, the Bundeswehr could then make "a very specific contribution to European defence", Mr Rühe said.

To be able to participate in military operations outside Germany, Mr Rühe said the Bundeswehr would continue to professionalise its 50,000-strong "crisis reaction forces". But, he says. Germany "will never have to undertake foreign operations as much as France has to. That can never be the main purpose of the Bundeswehr.

Mr Rühe agreed last week to find savings worth just over DMIbn (\$600m) from this year's defence hudget hut said yesterday it was still unclear how much would be cut from the 1997 budget. A final figure is expected before the cabinet approves the 1997 hudget on

The defence minister added that the Germans were in "very intensive talks" with the French about the future of the Tiger attack helicopter, the NH-90 transport helicopter and the Future Large Aircraft, the new generation of military transport aircraft which, Mr Rühe said, up to eight Euro-pean countries were interested

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Bonn and Italian business fearful over loss of export competitiveness

Concern grows with rise of lira

By Robert Graham in Rome

Concern is growing in Italy about the rise in value of the lira in a wave of positive senti-ment from the financial markets following the election of the new centre-left govern-

The lira's sharp appreciation has provoked a growing debate over the parity at which the Italian currency should he fixed when it re-enters the European exchange rate mech-

In the five weeks since the Olive Tree alliance's election victory, the lira has gained almost 5 per cent against the D-Mark. It is now hovering around L1,005, close to the psy-

year ago the lira was at L1,170 as the markets worried about political instability, poor public accounts and high inflation.

Mr Cesare Romiti, chairman of Fiat, the country's largest private group, this week warned a group of industrialists in Brescia that a rate of L1,000 to the D-Mark risked undermining the competitiveness of exports.

On Tuesday, Mr Romano Prodi, the prime minister said: It's fine the markets have appreciated our victory, but it would be better if this process is not taken too far."

The Bank of Italy has maintained since 1994 that the lira was undervalued, but it has

refused to indicate what sort of band within which it envisages the currency should move against the D-Mark.

Exporters themselves have conceded for some time that the lira should revalue once the political pictured cleared. Most of them also support its re-entry into the ERM. They are coocerned like Mr Romiti, however, that a "realistic" parity be agreed.

Mr Prodi, after meeting Chancellor Helmnt Kohl on Tuesday during his first foreign trip, adopted a pragmatic approach to re-entry. He envisaged the lira inside the ERM "hy the end of the year", a

when we re-enter it must be done in such a way that we do not leave [again]."

Yesterday. Mr Tancredo Bianchi, chairman of the Italian bankers' association, said a parity of around L1.010 against the German currency was right. But Mr Mario Noera, chief economist in Italy for Deutsche Bank, repeated his view that a more correct rate would be around L1.050.

Much depends upon the shape of the Prodi government's economic and finan-cial policy heing drawn up under Mr Carlo Azeglio Ciampi, the former premier slower and vaguer timetable and governor of the Bank than previously stated. If don't of Italy who has the treasury

and budget portfolios. He plans to present by mid-June a mini-budget of at least text of a tough 1997 hudget. That would be in advance of the EU's Florence summit and would be intended to show that Italy can come close to, if not meet, the main Maastricht criteria for monetary union.

This should enable the Bank of Italy to begin cutting the discount rate to bring the country more into line with the rest of Europe. Mr Antonio Fazio, its governor, is expected to make clear his views tomorrow in an annual message that is traditionally the year's most authoritative statement of pol-

Sweden buries 1992 bank crisis

Sweden's parliament yesterday approved the end of a universal state bank guarantee aimed at helping overcome a loan-loss crisis that hrought the country's banking system to

the brink of collapse in 1992. The removal of the guarantee to honour all commitments to creditors and depositors marks the official end to a crisis that cost the taxpayer SKr65hn (\$9.7hn) in direct support to the banks. Two of Sweden's top four banks. Nordbanken and Gota Bank, were taken over by the state and merged as their capital was wiped out by losses, mostly triggered by collapsing

Parliament also approved the disbanding of the Bank Support Authority, set up at the time to administer the rescue mission. The banks have now returned to profitability, and the state has begun the process of recouping some of the funds it was forced to lay out.

lt has already received more than SKr10bn in dividends and privatisation proceeds from Nordbanken. The guvernment hopes to recoup at least SKr40bn when it sells the remaining 65 per cent of Nordbanken and inwinds assets taken over hy the state through bad loans. Hugh Carneyy. Stockholm

A Berlin Bundestag loses support German public opinion is increasingly swinging against plans

hy the federal government to move from Bonn to Berlin by the end of the decade, according to a poll published today in Die Woche newspaper. More than 42 per cent said they opposed the move to the

German capital, while a further 21 per cent suggested it be postponed for financial reasons. The move, agreed following an emotional debate in the Bundestag in June 1991 – and during the heady days of German unification - is already costing the taxpayer DM20bn (\$13.1hn).

Thirty-two per cent of easterners said they wanted the move ahandoned, compared with 44 per cent of westerners. The Bundesrat, the upper house composed of representatives of the 16 states, recently put off a decision on whether It would follow the Bundestag to Berlin. Judy Dempsey. Judu Dempseu, Berlin

Commerce's multimedia project

Six of Europe's largest chambers of commerce have joined

forces to promote the use of the Internet and multimedia services by small and medium-sized companies. The Deus project, supported by Ecu6m (\$7.5m) of European Union funding, is one of the first European initiatives to emerge from last year's information technology summit of the Group of Seveu industrial nations. The chambers of commerce of Amsterdam, Frankfurt, Madrid, Paris and Milan, which formed a club to represent their interests three years ago. announced yesterday they would combine with London's chamber of commerce to launch the project. The European Multimedia Forum, a consortium of about 60 IT companies, is to collaborate with the chambers.

ECONOMIC WATCH

Belgian inflation

Prices edge down in Belgium

Consumer price index (%

same period a year earlier.

climbed 0.1 per cent and 0.6 per cent respectively. France's seasonally adjusted trade surplus rose to a provisional FFr12.137bn (\$2.33hn) in March from a revised

Local tax revolt ready to boil over

By Andrew Hill in Milan

The new Italian government is facing a notsy challenge from entreprenenrs and shopkeepers in the prosperons nnrth-east of the country who are threatening a tax revolt in protest at the heavy fiscal burden on their husi-

Mr Vincenzo Visco, the finance min-ister, was last night due to meet the regional commander of the Guardia di Finanza, the country's tax police, and the head of the local revenue office, to

discuss the situation. LIFE, an independent group of entrepreneurs foonded two years ago, claims to have rallied more than 3,000 members in the last few days in support of its attempts to reduce hureaucracy and

Official organisations, such as Confindustria, the Italian employers' federation, have responded cantionsly to the anti-tax initiative. Mr Giorgio Fossa. Confindustria's new president, admits there is a problem, but has not condoned non-payment of taxes - one method of resistance advocated hy LIFE's hardliners.

Finance ministry officials say they are surprised by the timing of the protest, given that the new government is pledged to simplify the tax system before the summer. The new law will include Mr Visco's plan to merge several local taxes into a single regional tax, introduced last year when he was

a centre-left deputy.

LIFE comes that small husinesses have to pay taxes np to ahoot 70 per cent of income - including VAT, social security and local taxes - and says members are fed up with heing hounded as poteotial tax evaders. The finance ministry says the average comhined rate of tax on husinesses is about 50 per cent.

The organisation is planning to demonstrate in Mestre, near Venice, on June 10 against what it says is the unacceptably heavy-handed approach of tax police in checking up on local

What started as a local problem bas onickly grown into a national cam-paign, with LIFE's founder Mr Fabio it's going to explode.

with the party, even though its rheto-League stronghold. Mr Giorgio Vigni. a sales executive who is head of the Treviso provincial branch of the movement, said yester-

Padovan in constant demand for televi-

sion and radio interviews. Mr Padovan

is a former member of parliament for

the federalist Northern League. LIFE

itself claims to have no direct links

day that LIFE aimed to become a nonparty federal organisation. with branches across Italy. "We're appeal-ing to all members of parliament from all parties." he said. "The hoiler is under great pressure, and if the goverament doesn't release the pressure.

Bonino says some species face 'biological collapse'

Brussels calls for heavy cuts in EU fishing fleets Mrs Bonino said the reduc-

By Neil Buckley in Brussels and Alison Maitland in London

The European Commission yesterday called for cuts of up to 40 per cent in fishing fleets for certain types of fish. It also warned that sanctions might be imposed against countries such as Britain and the Netherlands if they fail to meet existing fleet reduction targets.

Mrs Emma Bonino, the fish-eries commissioner, warned that entire species of fish faced "hiological collapse" in some European waters without cuts of this size over the next six Fishing groups warned that

the targets would lead to the loss of thousands of johs in fishing and associated industries. The European Association of Fish Producing Organisations said the measures were "based purely on biological arguments. They take no account of the economic consequences". The Save Britain's Fish campaign said the move would "harden our resolve to come out of the common fish-

tions would be offset by support measures, such as early retirement and grant schemes totalling Ecu3.1bn (\$3.8bn) in the first three years of a new six-year guidance programme for fisheries, starting next year. Funds for the following three years would be agreed in

She said refusal by the fishing sector to make sufficient cuts would threaten the indus-try's survival. "Whatever fishermen may say, they know perfectly well - better than we do - that a number of stocks are in a very dangerous state."

The overall targets must be agreed by fisheries ministers, hefore targets are negotiated with individual member states by the end of the year. The cuts come on top of size-

able reductions in EU fishing fleets in the present five-year guidance programme which ends this year. Some states, among them Spain. Portugal and Denmark, have already exceeded reduction targets. Others, such as Britain and the Netherlands, are well behind.

Mrs Bonioo warned that those failing to meet the targets by the end of 1996, could he taken to the European Court, which could block EU funds to member states failing to fulfil their obligations. Alternatively, these countries would have to shoulder a greater burden of capacity reductions in

the new six-year plan.
The UK will be hard pressed to achieve the new cuts. hav-ing reduced its fleet by only 7 per cent instead of 19 per cent. Two reports to the Commission, from independent experts and from its own scientific

committee, have warned that many stocks are dangerously over-fished. Mrs Bonino Is calling for three categories of fleet reduc-

 40 per cent for those fishing for the most endangered stocks, including white fish such as cod, baddock, whiting and plaice in waters such as the Irish Sea and North Sea. Between 20 and 30 per cent • 12 per cent for stocks in bal-

for less sensitive stocks.

Criticism of Albanian election mounts

Correspondent, in Tirana

permanently on the quayside

CARBOROUS

The streets of Tirana, the Albanian capital, returned to an uneasy calm yesterday, following the violent clashes between police and opposition demonstrators on Tuesday. Police, however, continued to patrol the central Skanderbeg

But signs of growing worries about the country's stability emerged with the release of a sharply critical preliminary report by international observers on the conduct of Sunday's general election, and publicly expressed concern by Washington about reports of election

New cuts demanded would leave many more fishermen

"We are urging the Albanian government and all the political parties in Albania to take all the necessary steps to ensure that the disputes that have arisen are addressed in a peaceful fashion." said Mr Glyn Davies, a State Departmeni spokesman. Both Italy, currently presi-

dent of the European Union. and the Commission have also expressed concerns about the conduct of the election. Alhania's main opposition Socialist party claimed yesterday that 34 of its supporters had been arrested and beaten during the night, following the clashes, and later released, and that a 34-year-old member of the party's youth movement had been shot dead on a city

Italian and US diplomats were called in to negotiate a lifting of police pressure on the Socialist party headquarters, where protesters had been penned in following the clashes in nearby Skanderbeg

parties pulled out of Sunday's

election, claiming widespread

Most of Alhania's opposition

violence. They are now seeking backing from Washington and west European governments for fresh elections THe Organisation for Secu-Co-operatioo in

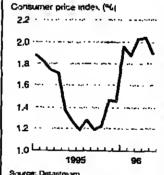
ballot rigging, intimidation and

Europe, which had 23 teams of observers in Albania for the election and co-ordinated the monitoring, outlined a number of concerns in its preliminary report yesterday. It said observers had noted

several instances during the counting of the votes in which the voter register was altered to bring it into line with the number of votes cast. In some

polling stations the number of hallots cast exceeded the numher of signatures on the voter register, and there were widespread reports of the alteration of ballots to make them

The accuracy of voter regis ters was questioned by both observers and party represeotatives on the local polling station commissions. The OSCE observers said decisions of the polling station commissions were not made hy majority vote. hut hy the "arhitrary" decisions of the governmentappointed chairman and secre-



month earlier and rose 1.9 per cent year-on-year, according to the economic affairs ministry, in April, prices rose 0.17 per cent on a monthly basis and hy 2.04 per cent from the previous year. The so-called health index used for indexing rents and salaries rose 0.21 per cent in May from a month earlier, the ministry said. May price rises included those for fresh fruit, petrol and flowers; falls were recorded in foreign travel. comhustible liquids and fresh vegetables. AFX Brussels

Belgian consumer prices fell

by 0.17 per cent in May from a

■ Registered unemployment in the Netherlands fell by 13,000 to 464,000 in the three months to the end of April from the

■ German import prices rose by 0.3 per cent in Aprilfrom March and by 0.8 per cent from a year earlier. Export prices FFr10.361hn in Fehruary. March exports rose to FFr124.887bn from a revised FFr118.719bn in February. Imports rose to FFr112.750bn in March from FFr108.358bn the month before.

Pyramid scheme set to pay delayed dividend at polls The mayor of Cluj in Romania may well be re-elected thanks to the prosperity

brought to the town by the fraudulent project he backed, writes Virginia Marsh est nationalist party, has been a severe embarrassmeot to many of the citizens of Cluj, the elegant Transylvaniau town he leads, as well as to the national government in which his party is the junior coalition

His anti-Hungarian railings have provoked international condemnation, while his role in Caritas, a fraudulent pyramid scheme he openly backed - which has no connection with the international charity of the same name - has never

been fully clarified.
Yet Mr Funar tops most opinion polls in Cluj ahead of Sunday's local elections and appears almost certain to go through to a two-way run-off for mayor on June 16. Almost 300,000 Romanians -

nearly seven for each post -

round of voting for mayors and councillors. The first nationwide polls for four years will prove a crucial test for the country's many political parlies before parliamentary and presidential elections in the

In Cluj, Mr Funar, whose National Unity party (PUNR) look just 10 per cent in the 1992 uational elections, faces 22 opponents. The main threats are from Mr loan Rus, a pre-1989 Communist party activist who is now a partner in the local Mercedes dealership, and who is running for the governing Social Democrats (PDSR): and from Mr Raou Sarbu, a physicist and member of the mising that it could never win Democratic Convention (CDR), in this stronghold of Romanian

are standing in Sunday's first a loose coalition of centre-right opposition parties which won almost all Romania's large cities in the last local elections

Other candidates include an ecologist, several liberats, a member of the National Car Owners party which is campaigning for better roads (a big issue in a country with some of Europe's most pot-holed streets), and a representative of a local gypsy party, whose symbol is the Ace of Clubs. Gypsies form Romania's largest minority.

The party of the ethnic Hun-

not fielding a candidate, recog-

nising that it could never win

The elections to Cluj are of national importance," says Mr Iuliu Pacurariu, a councillor for the pro-reform Democrat party (PD) who withdrew from the race for mayor two weeks

ago to join forces with the CDR against Mr Funar. "If Mr Funar loses, it will be a huge hlow for the PUNR. Proof of corruption at the town hall will emerge and the party won't get back into parllament in the autumn. Analysts say the PDSR. which is based on the group that has held power at national garians - nearly a quarter of Cluj's 325,000 inhabitants - is level since 1989, must win

more votes in Transylvania,

the most developed of Roman-

ia's three main provinces and

it wishes to strengthen its base

It holds just 34 per cent of seats in parliament, making the survival of its present government dependent on extremists like Mr Funar. This has tarnished both the party's as well as the country's image ahread.
The CDR, which hopes to

reverse its narrow defeat in the 1992 national elections, has been able to capitalise on popular discontent with the PDSR's mediocre government hut it has been greatly weakened hy internal divisions. Its many mayors and councillors standing for re-election also have difficult task of explaining why they have been able to achieve relatively little in the

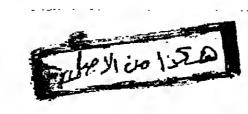
The main problem for most mayors has been financial. A bill giving local authorities some financial independence is one of many laws held up in the backlog of legislation at parliament, in the meantime, towns have been receiving paltry amounts from the central hudgets, often well after the start of the financial year and much of it already earmarked

for specific areas. Cluj county, for example, is this year due to receive a hud-gel of Just 30bn let (\$10m) for spending on health, education, transport and many other public services. This has not stopped Mr Funar from spend ing several billions of lei on statues, including a 40 metre

uprising against Hungarian

Money is much less of a problem for Cluj, than for other parts of Romania. The town was home to Caritas, the country's largest pyramid scheme which attracted some \$1 hn in deposits from about 4m Romanians. The scheme collapsed in 1994 with huge debts. but, hy then, the locals who encouraged hy Mr Funar -started playing two years ear-lier, had already made a for-

tune. "Caritas went bust, hut Romanians have short memo-ries. says a local husiness-men. "What people here know is that, today, Cluj, mainly due to Caritas, is a lot more prosperous than most of the country. I'm afraid that is why Gheorghe Funar may well be re-elected."



LRSDAY MAY MAY

arven in Belgie

Shadow of sanctions adds to Serbian woes

The president of Serbia's Chamber of Commerce yester-day warned of the urgent need for foreign capital to jump start the economy as the international community threatened to re-impose sanctions over the war crimes

"The economy needs \$1.5bn a year in order to develop, which cannot be raised only from domestic capital," Mr Vlajko Stojiljkovic said in yesterday's issue of Politika, the pro-government Serbian daily newspaper.

Western diplomats say foreign investment is unlikely to begin until Yugoslavia gains access to international finan-

His remarks came against a background of threats to renew UN saoctions on Belgrade. Sanctions were suspended in November after 42 months. when President Slobodao Mil-

Dayton peace accords. But Mr Milosevic has failed so far to arrange the handover of Mr Radovan Karadzic, the Bosnian Serb leader, and his military commonder. General Ratko Mladic, to The Hague war crimes tribunal. Under the Dayton agreement, the rival Balkan leaders agreed to extra-

dite indicted war criminals.

The UN security council on Tuesday deplored Belgrade's "continued failure" to arrest Gen Mladic, which it said "cannot be justified". The sharply worded statement was read by the security council president. Mr Qin Huasun of China. Belgrade relies on Cbina as an

Renewed sanctions would have a serious effect on Serbia's economy which is still in a shambles after the previous sanctions, the collapse of trading among the former Yugoslav republics and the cost of backing Serb fighters in neigh-

osevic of Serbia endorsed the bouring Bosnia. More than half of the country's workforce is have closed down and the average monthly wage is down to about \$100.

Mr Milosevic wants to stave off the re-imposition of sanctions, but fears a backlash within the political and mili-tary establishment and among Serbs if Mr Karadzic were

be very difficult for Milosevic to justify," said Mr Vujacic, an MP with the opposition Democratic party.
Mr Milosevic bas blocked proposed economic reforms including privatisation, the full

More sanctions would also

and the restructuring of the banking system. He has also vetoed an agreement with the International Monetary Fund giving rump Yugoslavia - Serbia and Montenegro - access to international financial markets.

liberalisation of foreign trade



Belgrade waiting game: Over half the workforce is unemployed, most factories have closed and the average monthly wage is \$100

Belgrade has refused to join the IMF unless Yugoslavia is named as the sole successor to the former communist federation of six republics as opposed to one of five successor states.

central bank governor, Mr Dragoslav Avramovic was sacked because be was willing to accept the IMF's terms, the same conditions endorsed by

A fortnight ago Yugoslavia's the other former Yugoslav republics. Even if sanctions are not renewed. Mr Vulacic predicts another spate of hyperinflation in Yugoslavia - in December

bome when addressing voters.

He trumpets the government's

achievements of privatisation,

low inflation and OECD mem-

bership, and stresses the need

for four more years to consoli-

1993 inflation made the dinar worthless and only its pegging to the D-Mark saved the situation. "Sanctions would mean a return to byperinflation, but

chooses one's toughest oppo-

In contrast to Mr Klans, Mr

Zeman has sought to keep the

issue of low wages to the fore,

as well as the parlous state of

the health service and the rising cost of medicines, issues of

particular importance for

northern Moravia's many

older voters. One such, Mrs

Jaroslava Kulhankova, a pen-

sioner out shopping, says she is not convinced by Mr Klaus's

prediction that incomes will

double in the next four years.

Complaining about the rising

nent".

French banks warned on service

By Andrew Jack in Paris

French banks must improve the quality of service to customers, but must also increase their charges to return to profitability, the bead of a government watebdog body said

yesterday. Mr Benoit Jolivet, bead of the consultative committee of the National Credit Council. part of the Bank of France, said the move towards a single European currency was likely to create a more competitive environment in which current accounts could be interestbearing - a policy currently illegal in France.

In exchange, there was a need for banks to charge fair prices for aervices, including the use of cheques.

His comments came during a discussion arranged by the French senate on the financial tronbles facing the French

A number of participants argued that French banks were earning substantially lower margins on loans to clients than foreign competitors, with some even offering loans at a

loss. Mr Michel Freyche, bead of the French Banking Association, said the country's mutual banking sector, the Post Office and the National Savings Bank, had unfair advantages because they were not obliged to provide dividends to share-

Mr Rene Barberye, chairman of the Caisse d'Epargne, the French savings bank network, argued for "co-existence" with the commercial banking sector, stressing that his organisation maintained employment, paid substantial taxes and was free of control by "American rentiers" which he claimed controlled the country's quoted

banks. Mr Francois Henrot, bead of the supervisory board of Credit dn Nord, said the low levels of profitability among French commercial banks were the result of "a collective folly" dating back a number of years to when the financial sector

Czech party leaders fight poll duel in Moravia

The depressed industrial region highlights the divisions created by economic reform, writes Vincent Boland

r Vaclav Klaus, the Czech prime minis-ter, is not only standing for re-election in the depressed industrial heartland of northern Moravia but he is in a straight fight with the leader of the opposition. The last opinion poll permit-

ted before the general election tomorrow and Saturday showed that Mr Klans's centre-right Civic Democratic party was 6 points ahead of Mr Milos Zeman's Social Democrats nationally hut the intriguing contest is whether Mr Klaus can inflict a double defeat on Mr Zeman by winning more personal votes in Moravia, where they both head their respective party

Northern Moravia is a key battleground between the parties because it is the region which above all bears the scars of the economic revolution Mr Klaus has brought



about. Close to the borders with Poland and Slovakia, it is dominated by steel mills, coal mines and smokestack factories but it also has many new service industries which have benefited from Mr Klaus'

reforms. Ostrava, the region's main city, has been choking on the since the 1820s. Executives at the plant say a massive environmental project has cut pol-intion dramatically, and they now claim, somewbat against the evidence, that the city is

"cleaner than Prague." The plant has laid off more than 16,000 workers since 1989, but the boom in services unleashed by Mr Klans's reforms has provided alternative jobs and kept regional nnemployment not mncb above the national average of 3 per cent. In the past few years the region also has ecome a centre of rising foreign investment.

The huge numbers of people who have changed employment in the past few years, leaving traditional industries to work in services, tend to support Mr Klaus. Those who have remained in traditional industries and those who have retired on small pensions are

bnge Vitkovice steel plant Mr Zeman's biggest constitu-

Commentators suggest there is a growing generation gap among voters, a gap evident at party rallies, with more young people turning up to hear Mr Klaus than Mr Zeman. Polls suggest that over 60 per cent of support for Mr Klaus's centre-right Civic Democratic party is from under-45s while supporters of the Social Demo-

crats are more elderly. Young people appear more impressed by Mr Klaus's firm leadership than Mr Zeman's cantion and, in particular, by the vagueness of the Social Democrats' economic policy.

This generation gap is reflected in the party hierarchies. Mr Klaus enjoys giving economic lectures to students around the country, and has attracted large numbers of young Czechs to his party who appreciate the wider career opportunities thrown up by

economic reforms. They make a youthful contrast with the ing advisers and officials at the top of the Social Demo-

Mr Kamil Janacek, a minister in the federal government date them. Miroslav Novak, a

Mr Klaus enjoys giving economic lectures to students around the country, and has attracted large numbers of young Czechs who appreciate the benefits of reforms

with Mr Klaus in the early days of Czechoslovak democracy after the Velvet Revolution and now the chief economist at Komercni Banka, notes "the lack of competent young professionals inside the

Mr Klaus emphasises the country's standing abroad as

student at the Technical University in Ostrava, says: "I think Klaus deserves another [term]. What he has done is good. It is very hard for me to trust the Social Democrats."

Mr Zeman, who has been campaigning in the area almost exclusively since March, says he chose to run in northern Moravia because "in

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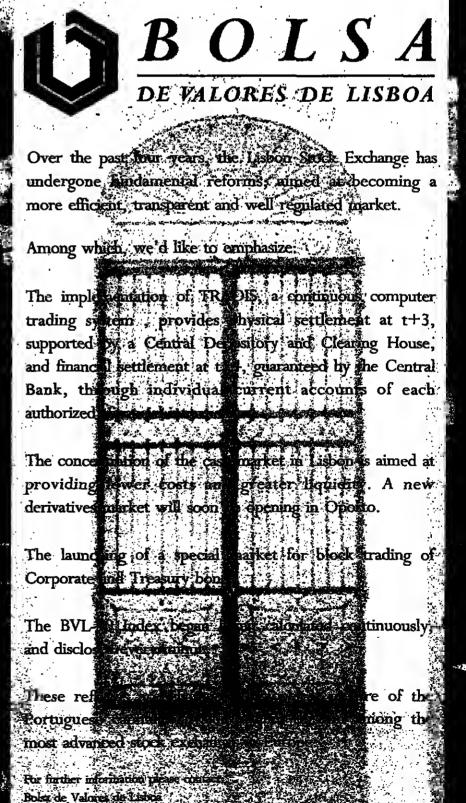
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cost of medicines, saying she will be voting Social Demo-Older voters outnumber the

young throughout Moravia, which has a rural, conserva-tive sonth but observers expect a high turnout among young voters and the contest between the two prospective prime ministers could be close.





Bad news from back home jolts the president

Jurek Martin finds the White House deflated by the convictions handed down in the Whitewater fraud trial

he deflation within the White House at the news from the Arkansas courtroom late on Tuesday afternoon was paloable. A total of 24 guilty counts against Mr and Mrs Bill Clinton's former real estate business partners and the president's successor as governor of Arkansas destroyed growing hopes that a central pillar of the longrunning Whitewater investigations would crumble to dust under the weight of acquittals.

Disappointment was obvious in the president's voice and face as he commented briefly on the outcome, praising the jury's diligence but wondering openly why they had appeared to believe Mr David Hale, a convicted felon, and not his own video-taped testimony for the defence of Mr and Mrs Jim

Confident expectations of exoneration were expressed even more powerfully by Mrs Hillary Clinton, the president's wife, in an interview with Mr Jim Lehrer, of public television, recorded less than an hour before the verdicts came but broad-

cast later in the evening.

She. too, assailed Mr Hale, who had charged that, as governor 10 years ago, Mr Clinton had improperly put pressure on him to make an illegal loan to the McDougals. She dismissed as "pure politics' most of the Whitewater investigations and had no compunction in defending some Democratic campaign commercials accusing Senator Bob Dole, ber husband's proba-ble presidential opponent in November, of being a "quitter" for his decision to leave the Senate.

Morning-after reflections brought some relief. Several interviewed jurors said their deliberations had never come down to believing Mr

Clinton or Mr Hale. It had been,

they said. a complicated "paper trail" case and the president's apparent ignorance of the facts, taken at face value, meant that his evidence was not material. That point was also made hy Mr

would hit any form of paydirt. The clearest consequence is the new legitimacy given to Mr Starr, the lawyer and judge with close Republican connections. He had been under recent attack for connext month in Little Rock, the Arkansas capital, against others implicated in various aspects of

So far, the Starr team has a perfect record, with eight convictions,

Mr Clinton praised the jury, but wondered why they had appeared to believe a convicted felon and not his own video-taped testimony

cial counsel, and even by Congressman Jim Leach, chairman of the House of Representatives banking committee and a long-time Whitewater scourge. Other Republicans were less reticent, among them Senator Al D'Amato of New York, who had been holding out little hope this week that his Whitewater special committee, due to wrap np its business in less than three weeks,

tinning to represent conservative clients in his private legal practice. Previous special counsel, dating back to Watergate in the 1970s, it was argued by the Clinton camp, had dropped all other business to concentrate on the public matter. But it was his team which prosecuted the McDougals and Governor Jim Gny Tucker of Arkansas, and will now pursue other cases, both in

that state and elsewhere, starting

though several on charges only peripheral to Whitewater itself. The most prominent are Mr Hale, a former investment banker, and Mr Webster Hubbell, a partner with Mrs Clinton in the Rose Law Firm and later associate attorney-general in the justice department.

Mr Starr, like the White House, is constantly at pains to point out that neither the president nor Mrs Clinton has been the target of any criminal investigation. There are persis-tent rumours that she could he indicted over the affair of dismissals from the White House travel office in the summer of 1993, but these are unsubstantiated and may represent wishful thinking by Republicans.

But the special counsel may, in the opinion of legal experts, now bave leverage to question the McDougals and Mr Tucker (the governor is to resign oext month), on issues involving the Clintons but

not yet covered in any court trial. The judge in the McDougal case must now make a decision with political implications. Mr Clinton's taped testimony last month has not been seen outside the courtroom and is under seal. Many organisations, some in the media, some with partisan counections, have applied for its public release.

If the judge concurs, the tape

might well provide ammunition for the sort of negative TV commercials already saturating the networks from both sides. Friends and associates of Mr Clinton having been found guilty by a home-town jury would figure in such assaults.

But sweeping assessments, other than the predictably partisan, of the damage done to Mr Clinton's chances of re-election were not instantly easy to find. Whitewater had clearly declined as an issue of importance to the general public, as reflected in opinion polls which put the president an average of 20 points ahead of Mr Dole.

The extent to which the issue is now ascendant may depend on the amount of general media coverage it now draws. That, in turn, may hang on Mr Starr's investigations and any now generated in Congress. with just over five months to go before the country votes.

Dole takes silent advantage from Clinton fall-out

By Patti Waldmeir in San Diegn

The conviction of President Bill Clinton's former business partners, in the Whitewater trial, is the best news Senator Bob Doie, Mr Clinton's presidential campaign rival, bas had in months. But no one is going to catch him saying so.

Mr Dole was campaigning in California - a crucial electoral state where be trails Mr Clinton by a wide margin in the opinion polls - when news of the Whitewater verdict in Arkansas broke on Tuesday afternoon. He spent the rest of the day finding different ways of saving he was not going to crow about it, until he was reduced, by the end of the evening, simply to repeating

But the look on the senator's face said it all. While his aldes mnttered sagely that the can-didate "trusted the voters to draw their own conclusions". Mr Dole looked simply

regularly betrays emotion unlike his rival - so any slight change is immediately notice-

As Mr Dole kept reminding the travelling news media corps on Tuesday, be bas never commented on Mr Clinton's Whitewater difficulties. He has always refused to "go negative" on the president, determined to be seen rising above such politicking. The senator knows he can rely on legions of political commentators to draw the negative conclusions which he dectines to

When he had addressed his first campaign rally after the announcement of the trial verdict, it was that silence which spoke most londly. He attacked Mr Clinton for failing to keep campaign promises on welfare reform and taxes, and managed to imply that Mr Clinton was untrustwortby and deceitful. Mr Dole did not mention Whitewater once.



A glum incumbent: Bill Clinton might still be well ahead in the opinion polls, hnt it's Boh Dole's week so far

Rifkind hits at Cuba trade curb

By Bruce Clark, Diplomatic

Mr Malcolm Rifkind, the British foreign secretary, said yesterday that the US was threatening western unity and hurting its own interests by penalising European companies that trade with Cuba.

In a speech at the National Press Club in Washington, he spoke out against "shortsighted, unilateral actions' which could damage the cause of free trade, both across the Atlantic and further afield.

"We do not quarrel with Congress's aims, but we disagree very strongly with the means they envisage," the foreign secretary said, referring to the new US law which aims to deter European companies

from dealing with Cuba. He likened the legislation,

called the Helms-Burton law after its congressional sponsors, and efforts by Congress to pass similar measures to stop the Europeans from trading with Iran and Libya, to the Arab hoycott on companies dealing with Israel, which all western countries had resisted.

"The cases are precisely comparable," Mr Rifkind said, "No country has the right to tell companies in another country how they should behave in third countries.

He added that the latest proposals for sanctions against European companies would "cause division among western allies. who should he working together to combat terrorism", and 'penalise American workers" by driving business away from the US.

The foreign secretary, who has made the liberalisation of transatlantic trade one of his main issues since he took office last summer, acknowledged more frankly than before that there was powerful US resistance to this cause.
"I am realistic about the

sbort-term prospects for further liberalisation, not least because this year sees elections" in the US. But Mr Rikind said Britain

would continue to work for the freeing of transatlantic trade. as part of its effort to achieve global free trade by 2020. "We should cut remaining

tariffs, recognise each other's standards, open up our public procurement ... [and] tackle agricultural subsidies." Our Foreign Staff reports: The US was yesterday sending letters to Canadian, Italian and

Mexican companies to warn them that they may be hit by US sanctions under the Helms-Burton law, a US government source said. The letters would be sent to

Canadian mining and energy company Sherritt International, Italian telecommunications concern Stet and Mexican conglomerate Grupo Domos.

Stet said yesterday it had not yet received a letter from the US authorities and would not comment until it had. Sources close to the Italian company said Stet was calm about the US initiative, because it believed US legislation "proba-

An elephant in the living-room

Colombia's Congress is debating a growing drug scandal, writes Sarita Kendall

wo years after the release of tape recordings which suggested that drug money had infiltrated the 1994 election campaign of President Ernesto mper of Colombia, the issue is being debated in Congress.

The debate on whether to accuse Mr Samper of having taken contributions from the drug trade cartel based in the Colombian city of Cali is the most important step so far in the affair. It has already led to the arrest, 10 months ago, of his campaign manager and

However, expectations of the proceedings in Congress are not high. These have been variously described as a farce, a circus and the debate of the century - whichever is the case, no result will be enough in itself to dispel the country's

political crisis. Last week, an investigating commission sent the House of Representatives its recommendation that the charges against the president - including fraod, illegal enrichment and covering his tracks in these

matters - should be dropped.

As Mr Samper's Liheral party has a majority in the house, and as more than half of the Conservatives, also represented in the cabinet are sympathetic to the president, a complete absolution is expected. Congress members under investigation for their own links to drug money will be tempted to exonerate Mr Samper so as to create a

self-serving precedent. However, Mr Rodrigo Rivera, president of the house, said it was capable of a surprise. He pointed out that the discussion so far has focused on personalities and prejudices, oot on analysis of evidence. In addition to representatives, the

president's lawyer and the prosecutor-general may take part in the debate, which for-mally started on Tuesday and is limited to 15 days.

In a rush to avoid their responsibilities, some 25 per cent of the representatives have ceded their seats to substitutes: a warning from the constitutional court that parliamentarians may be charged

mer campaign officials arrested 10 months ago. Evidence from imprisoned Cali cartel leaders who are supposed to be co-operating with justice is never mentioned. Mr Samper claims there was

Much of the case against him

rests on statements by the for-

no need for him to know anything about the day-to-day management of the campaign

tor-general's office and the attorney-general, who is now under arrest for alleged receipt of drug money. Like many economists and husinessmen, Mr Caballero believes that Mr Samper must

public sparring among Colom-hia's foremost institutions,

especially between the prosecu-

resign to prevent further loss of "governahility" and of inter-national prestige. "His resignation is a necessary, but not a sufficient, condition for economic recovery. A tremendous adjustment is needed in the

Although the political crisis is only partly responsible for the current deceleration of the economy, it has created a sense of paralysis on many fronts. including the government's inability to counter a resurgence in guerrilla and paramilitary activity. The president's announcement last week of the construction of a canal across the north-western region of Uraba, to link the Atlantic and the Pacific oceans, was largely

treated as yet another smoke-The whole matter has shown up a lack of political opposition and leadership. Mr Samper has used his considerable political skills to stay in power, despite the fact that most Colombians believe he knew about cartel's

contributions to the campaign, In this he has had unex pected belp: every time the US acts against Colombia, such as withdrawing certification of the country over perceived shortcomings in the fight against drug trafficking or expressing (as the State Department did last Friday) doubts about the impartiality of those who may accuse him, nationalism puffs out its chest



A beleaguered incumbent: Congress is expected to clear Ernesto Samper, but the political crisis would remain

if they disregard evidence clearly had created unease. But, given that the final vote will probably he secret, it is difficult to see how the court would know whom to charge.

If the house votes to accuse Mr Samper, the case will pass to the Senate, where there is

with violating legal procedures

also a Liberal majority. The Senate is the only body which can decide whether to impeach the president. the beginning that any contri-

Mr Samper has insisted from butions by drug traffickers were made behind his back. drug contributions estimated at \$6m or more, his failure to notice them led the president of the Colombian bishops' conference to comment that it was like not noticing an elephant in one's living-room. "The president and his law-

or its finances. However, with

yers have managed to convert everything into a legal, instead of a political, problem," said Mr Carlos Caballero, head of the Bogota stock exchange. This has allowed a morass of

legal niceties to displace any serious discussion of political responsibilities and has led to

COPEL

LEGAL NOTICES

and stands by the president.

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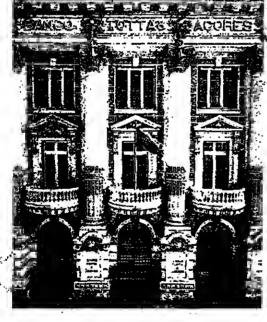
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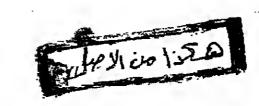
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Taiwanese group 'in \$3.8bn China deal'

By Laura Tyson in Talpol

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Formosa Plastics, Talwan's biggesi industrial group, is understood to have finalised a deal to build a US\$3.8bn thermal power plant in China'a Fujian province. The deal comes only two months after an intense military atand-off between Beljung and Taipei. Due to the cross-strait sensitivities Formosa Plastics is refusing formally to announce the deal, which is designed to fuel Fujian's largely Taiwan-backed

Taiwanese media have consideration for at least six reported the deal widely, clting months, and has been handled

Formosa executives.
Formosa Plastics' chairman,

Mr Wang Yung ching, and provincial government officials signed contracts on Tuesday under a cloak of secrecy.

Mr Wang went on to Beijing cials to discuss the group's China investment plans, which include several other power

plants. Formosa Plastics executives in Taiwan and the US declined to give confirmation of the project, which has been under

We're uucleor about thla plan," said e spokeswoman at Formosa Plastics. "Only our

The project is designed to fuel Fujian's largely Taiwan-backed economic boom

boss can confirm the details." The Talwan government restricts investment in China by Taiwanese companies by the project, whether there are

law and individually screens projects worth more than a few million dollars. In 1992, For-mosa Plastics bowed to government pressure and backed away from building a planned US\$6bn petrochemical complex in Xiamen, on the coast of

Fujian province.

It is understood that, in an effort to circumvent Taiwanese restrictions, investment in the power plant project is heing routed through a Formosa Plastics subsidiary in the US. It is not clear what stakes Formosa Plastica and the Fujlan government will take in

any other investors or how the financing wilt be mised. The natural gas-fired plant, to be located in Changchou city, will have six generators and a capacity of 3,600MW. The first generator will start produing in the power geoeration sector in China, but the gov-

ernment may be extremely

reluctant to approve an invest-ment the size of that planned

Formosa Plastics' project has received close attention from China's central government

and has been given preferen-

tial treatment, locluding five years without tax, plus five years at half-tax rates

after the plant begins to turn a profit. The government has provided land, coal, access to

harbours, a higher return for electricity sales and other

"tigers", the rest being attributed to higher initial income (poorer countries tend to grow

faster) and lower national

The IMD, by contrast, uses

as one of its criteria "the

extent to which enterprises are

managed in an innovative,

profitable and responsible

manner", the top-rated country

While Singapore and Hong

Kong score highly in both

assessments, the US takes first

place in the IMD rankings and

Japan is 4th. The WEF puts

Japan a lowly 13th and Ger-many, Europe's biggest econ-

omy, is ignominiously rele-

gated to 22nd place, compared with 10th position in the IMD league. Elsewhere the WEF

gives much higher marks than

the IMD to New Zealand,

savings rates.

by Formosa Plastics.

cing electricity in 1999. Formosa Plastics' share of the project would be hy far the largest Taiwanese investment in China. To date 25,000 Taiwanese companies have com-mitted themselves to invest a total of about US\$24bn, making

Taiwan China's second-largest foreign investor. Taipei recently lifted a complete ban on companies investWORLD TRADE NEWS DIGEST

Athens airport finance cleared

The European Commission yesterday cleared an Ecu2.15bn (\$2.6bn) financing package for construction of Athens' new Spata airport, Greece's biggest transport infrastructure project, saying it did not constitute anti-competitive state aid. The project to build what will become Greece's main airport, 25km from Athens, attracted controversy last year when the contract went to e German consortium, despite fierce lobbying

The airport funding package includes grants from the Greek government, preferential tex treatment, state loans and guarantees. The project is receiving support of Ecu250m from the EU's cohesion fund, which provides grants to poorer regions, and an Eculbn loan from the European Investment Bank. The support offered is helieved to be the "minimum necessary" to secure the interest of private investors.

The airport will initially serve about 15m passengers a year when it opens at the end of the year 2000. Athens' existing airport at Hellenikon will close. The airport is being developed as a joint venture between the Greek state and a consortium comprising Hochtief, ABB Calor, Emag Schaltanlagen and H. Krantz.

Neil Buckley, Brussels

Swiss get mixed 'bill of health'

Switzerland's economic and trade regime was yesterday given a mixed hill of health by trading partners in the World Trade Organisation. Discussing a report drawn up by the WTO secretariat, countries complained the Swiss market was hard to peoetrate, despite a generally liberal trade regime for manufactured goods.

Domestic agriculture remained heavily protected despite planned reforms. In the non-agricultural sector, the strength of the Swiss franc and lower import prices had not translated into significant domestic price cuts. In the services sector, a variety of obstacles, including work permit regulations, nhibited foreign competition. Trading partners urged Switzerland to press ahead with measures to ensure more genuine openness in the economy. Frances Williams, Geneva

Venezuela signs rail deal

The Venezuelan government yesterday signed an \$800m contract with the Italian-Japanese-Venezuelan consortium, Contuy Medio. to huild a commuter railway linking Caracas with the suburb Valles del Tuy. Half the project's cost will be financed by the Venezuelan government and the other half by Contuy Medio. The railway begins service in 2001 and will carry 180,000 passengers a day. The government will only subsidise the fare by up to 30 per cent. This rail segment is the first of a planned 650km network linking Caracas with Acarigua, 300km to the west.

NEC in satellite venture

ICO Global Communications, set up last year by Inmarsat to develop a satellite-based worldwide mobile phone system, has placed contracts worth \$500m with a consortium led by NEC of Japan for ground systems, it said yesterday. Upgrades until 2010 are expected to be worth a further \$150m.

Tha consortium includes Hughes Network Systems of the US and Ericsson of Sweden. NEC is taking an equity stake in ICO. and becomes a strategic partner in the project, which intends to place 12 satellites in medium Earth orbit by 2000, providing customers with voice, data, fax and messaging services to and from anywhere in the world.

Alan Cane, London from anywhere in the world.

Portugal wins Siemens chip plant project

By Peter Wise in Lisbon

Siemens, the Germao electronics and electrical engineering group, has chosen Portugal from 26 competing countries as the site for a Es60bn (\$380m) memory chip plant

that will create 750 jobs. Portugal's quality cootrol capabilities - in addition to political stability and bigh investment incentives – were a decisive factor in the choice, in spite of fierce competition from eastern Europe, Siemens said.

Portuguese newspapers said the Czech Republic, Ireland, the Philippines, Malaysia and China had been short-listed with Portugal, but Siemens declined to comment on other candidates. Siemens' decision was also influenced by its long-term presence in Portugal, where it already has five plants employing 5.000 people. Mr Helmut Kohl, the Ger-

man chancellor, is to preside at the signing of a protocol in Lisbon today that sets the terms for further negotiations on a formal investment contract between Siemens and Portugal. The plant, which is to begin production near Oporto by the end of 1996, represents tha second higgest foreign investment in Portugal and the first imporated by the socialist govern-ment since it took office six

months ago. The plant will have the capacity to produce 150m 16MB D-ram (dynamic random access memory) chips a year and is later expected to upgrade for the production of 64MB and 256MB D-ram chips.

Mr Augusto Mateus, Portugal's economy minister, said yesterday that the upgrading of Portuguese companies was an important part of the agree-ment with Siemens. By 2007, the Oporto plant is expected to use as much as 70 per cent Portuguese inputs,

Mr Mateus said the extent of financial incentives - which will be limited to a maximum of 40 per cent of the total investment - would depend on Siemens' performance in relation to targets, including sales volume and technical advances in the plant's output.

He acknowledged that Portugal's incentives weighed beavily in Siemens' decision. But he added the incentive package covered training, operational facilities, technology and know-how transfers and regional development, as well as fiscal benefits and EU-financed grants.

Europe seen slipping behind in global competitiveness

By Frances Williams in Geneva

Singapore, Hong Kong and New Zealand top the list of the world's most competitive countries, ahead of the US in 4th based World Economic Forum.* place, according to the Geneva-

lts Global Competitiveness Report, published yesterday, says the European Union Is slipping behiod many parts of the world in economic competitiveness, weighed down by a costly social welfare system. "Five of the six most compet-

itive nations are small, open small governments and low tax rates," the report notes.
The WEF report, which covers 49 countries, follows publication earlier this week of a competitiveness league table

compiled by the International Institute for Management Development (IMD), the WEF's former collaborator. Luxembourg is the only EU member to feature in the WEF's top ten, with Denmark

in 11th place. Britain, which is ranked 15th, beats the EU's other big economies, ranking ahead of Germany (22nd) and France (23rd). Outside Asia. Chile is the highest ranking developing country (18th).

The WEF says its rankings, aimed at identifying the countries with the best growth pros-pects over the next 5-10 years,

manager the length of several and respect to the length of the length of

New Zealand United States Moleysia Denmark Australia

Competing competitiveness reports

World Economic

have been demonstrated to affect economic performance. The "competition index" from which the rankings are derived correlates closely with recent growth of gross domestic prod-

uct per bead, Competitive economies, the WEF argues, are those with "open markets, lean govern-ment spending, low taxes, flexible labour markets, an effective judiciary and stable

political systems". "The competitiva nations are

are based on criteria which institutions and policies that promote long-term growth," in Sachs, who chairs the report'a advisory board.

European nations such as Germany are rated relatively poorly because they are seen as being bampered by more rigid labour markets and costly social welfare programmes,

Prof Sachs estimates that this factor accounted for half the 4 percentage point differ-The competitive nations are ence in growth in 1990-95 the ones that have chosen the between the EU and the Asian

Taiwan, Malaysia, Australia and Thailand, and much lower marks to Denmark, the Netherlands and Sweden. More curiously, the WEF ranks China (36th) below Jor-

dan, Egypt and the Czech Republic, whila Italy (41st) is judged less competitive than Peru, Greece and Colombia. Both organisations put Russia firmly at the hottom of the class, with Venezuela, Poland and South Africa also perform-

ing badly. *Available June 15 from World Link Publishing, tel +44 171 779

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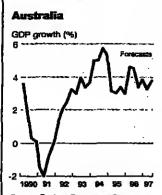
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ASIA-PACIFIC NEWS DIGEST

Australia sees surge in growth



Australia's year-on-year economic growth rate surged to 4.8 per cent in the quarter to the end of March - np from just over 3 per cent in the 12 months to end-December and well in excess of most economists' forecasts.

However, Mr Peter Costello, the federal treasurer, quickly reaffirmed that Australia's new conservative government planned spending cuts -amounting to around A\$8bn (US\$6.2hn) over the next two fiscal years - despite the stronger than expected result "The underlying [budget] deficit for 1996-97 is A\$8bn; the

wouldn't say on the basis of these figures that the forecast for 1996-97 has markedly changed," he said. The size of the federal government's budget deficit is fairly sensitive to the growth assumptions used. When the new Liberal-National coalition government took office in March, it re-worked budgetary projections for 1996-97 using a 3.25 per cent growth rate. This was lower than the 3.75 per cent figure

forecast (growth rate) we make for 1996-97 is 3.25 per cent. You

employed by the former Labor administration in its last Using the new growth rate, the coalition predicted a A\$8bn budget deficit for the 1996-97 fiscal year, It has subsequently used this figure to justify big public spending cuts.

While analysts conceded that the 1.8 per cent increase in

gross domestic product in the March quarter alone was unlikely to be repeated in the foreseeable future, they concluded that the Australian economy was more robust than

previously thought. The bond market weakened after the data were released, with any bopes of an interest rate cut receding further. But Mr Bernie Fraser, governor of the Reserve Bank, the central monetary authority, said be did not believe the quarterly data

would put additional upward pressure on interest rates. Meanwhile, Mr Costello said yesterday that no decision had vet been made on who would succeed Mr Fraser as governor of the Reserve Bank. Mr Fraser has said be will step down when his term expires in September. Nikki Tait, Sydney

Rise in Japan's industrial output

Japan's industrial output rose by 3.9 per cent from March to April, in line with a modest economic recovery, but this was not thought strong enough to tempt the central bank to raise its record low official interest rate. The April increase in production, according to seasonally adjusted preliminary data from the Ministry of international Trade and Industry, appears to mark a steep bounce back from a record 6 per cent month-on-month decline in March.

Both figures are in fact exaggerated by statistical factors. Quarterly averages, giving a clearer measure of the trend, show that industrial production rose by 0.4 per cent from the last three months of 1995 to the three months ending in March and it is set to rise 1 per cent in the second quarter to June, the third quarter of growth, according to Mitt's latest forecast

That would bring year-on-year output growth to 1.9 per cent in the second quarter, a level last seen in the same period last year, just before production started to slow, doe to the after-effects of the Kobe earthquake. Miti officials said increased sales of personal computers and mobile phones led

this latest recovery. The ratio of inventories of unsold goods to deliveries fell by 4.4 per cent in April hut, even after that fall, stocks were slightly above February levels, swollen by an end of 1995 production increase in anticipation of a sales boom in the new William Dawkins, Tokyo year which failed to materialise.

Red Cross appeal for N Korea

The International Federation of the Red Cross made an urgent appeal yesterday for \$5.25m in food aid to belp tide North Korea over until its harvest in October. Mr George Weber, secretary-general of the international Federation of the Red Cross, warned that 130,000 North Koreans risked famine unless the international community responded.

"These people are entirely reliant on the Red Cross for their daily rice ration," Mr Weber said. "This crucial food lifeline must be maintained." Some 500,000 North Koreans were left destitute last July and August by floods.

in Seoul, Mr Bill Richardson, a US congressman who has conducted peace missions on President Bill Clinton's behalf, said after a visit to North Korea that Pyongyang probably would not agree to proposed four-party peace talks including the US, South Korea and China until its food shortage had been solved. Tony Walker, Beijing and John Burton, Seoul

HK runway deal set for signing

Britain and China are today set to sign an agreement clearing the way for construction of a second runway at Hong Kong's new airport, according to officials in the territory.

The accord reflects improved co-operation on economic issues ahead of Hong Kong's handover to China next year and marks a contrast with the protracted wrangling over construction of the airport. Rows between London and Beijing prompted a delay in the project, which is now due for completion in spring 1998, rather than the middle of next year. Industry executives said work would start almost immediately and the runway could be completed by late 1998. The cost is estimated at about HK\$4bn (\$519m). John Ridding, Hong Kong

China detains dissident

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Charlotte Green

Chinese dissident Mr Wang Donghai has been detained in the run-up to the seventh anniversary of the June 4, 1989 Tiananmen Square crackdown on student protesters in Beijing. Mr Wang was taken into custody after sending a petition to parliament demanding the release of political prisoners including Mr Wei Jingsheng, jailed last year for his pro-democracy activities. Tony Walker, Beijing

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Gowda breaks mould of Indian premiers

The rise of regionalism has handed power to a man who speaks little Hindi, writes Shiraz Sidhva

r H.D. Deve Gowda, who will be sworn in as India's 14th prime minister on Saturday, is a self-confessed peasant and speaks virtually no Hindi. That alone distinguishes him as India's first "regional" prime minister, reflecting the rise of regionalism within the coun-

The 63-year-old leader of the United Front coalition of disparate regional and low-caste hased parties was yesterday attempting to form a government in the wake of the resig-nation earlier this week of Mr Atal Bebari Vajpayee, the leader of the Bharatiya Janata party, the Hindu nationalist group. The BJP, which emerged as the largest single party after this month's election returned a hung parliament, failed to win support from a large swathe of inde-pendents who condemned its anti-Moslem rhetoric.

"I will try my best to live up to the expectations of 900m people," said Mr Gowda, after accepting an invitation from President Shankar Dayal Sharma, to hesd India's next government

It was a typically unemotional and humble response from a man little known outside of his home state of Karnataka where, as chief minis-ter, he has made the task of attracting foreign investment a high priority.

Bangalore, the state capital, is today India's Silicon Valley and foreign investors there



Gowda: the United Front leader was previously little known ontside Karnataka

include IBM, Levi Strauss and Motorola. In January 1995, Mr Gowda laid out the red carpet for the late Mr Ron Brown, the former US commerce secretary, and secured a clutch of foreign investment deals. Such a record should belp ease the markets which dipped on the BJP's removal and which bave generally supported the Hindu nationalist party as the only movement capable of continuing the economic reforms of the Congress party, the main

Today Mr Gowda will resign as chief minister of Karnataka before taking up his new post. His friends say be is reluctant to leave Bangalore and his 20hectare farm in the fertile Kaveri river basin for what is widely expected to be a turhulent 12-18 months in New Delhi. Few commentators reckon Mr Gowda will survive beyond then and pessimists say be will have fallen by the year-end after failing to hold

together his fractious coalition Do you really want this headache?" his wife is reported to have told him over the telephone after he was elected compromise leader of the United Front a fortnight ago.

A farmer by birth and a civil engineer by training. Mr Gowda symbolises the kind of political consensus which sbould ensure that Congress's economic reforms, started in 1991, are continued. The United Front, which won 180 seats in

the election - less than the BJP hut significantly more than Congress - could not have formed a government without the support of Mr P.V. Narasimha Rao's Congress which had threatened to pull the rug from under its feet if reforms were not maintained.

"He is perbaps the only leader acceptable to the Con-gress, and he will go ahead with the economic reforms that they started." says Mr Jaipal Reddy, a senior MP of Janata Dal which forms the Front's largest single group.
"I will not describe myself as

an economic reformer, I am just a peasant," Mr Gowda said in a recent interview. As India's first regional leader all his predecessors have been politicians at the national level - be bopes to restore the federal structure of the country which Mrs Indira Gandhi started to erode in the late 1970s whenever she perceived a threat to her authority.

"The days when the central government was run by one party are over." said Mr Gowda last week. "The regional parties are stronger now, and their voice has to be heard."

Known as a political pragmatist who talks straight, plays his cards close to his chest and trusts few people. Mr Gowda started his political career with Congress in 1953. A decade later, he switched to socialist groups, changing parties like many indian politicians to cling to power. His political strength is derived from his farmer-dominated Vokkaliga caste, a more powerful interest group in Karnataka than party affiliation.

"His ambition was to develop Karnataka into India's most prosperous state," said Mr H.D.Kumaraswamy, his son. "I

don't think he was prepared to

leave the state at this stage. The United Front has been described as a rag-tag band of socialist and left-centre parties. It nominated Mr Gowda for the leadership role, ahead of other potentially divisive regional strongmen such as Mr Laloo Prasad Yadav, chief minister of Bihar, and Mr Mulayam Singh Yaday, both of whom derive support from farmers' groups

and india's lowest castes.

Mr Gowda is not an MP and must be elected to the lower bouse through a hy-election within six months of being sworn in as prime minister. Mr Kumaraswamy, a film distributor and a campaign manager for his father in regional elections in 1994, has been elected an MP but is is expected to give up his seat to accommodate his father.

Unlike his predecessors Mr Gowda is said to be immersed in his political career with littie desire for outside interests. Mr Vajpayee was a published poet and an orator: Mr Rao spoke more than two dozen international and Indian languages, was a computer buff and has an uncompleted novel under his belt. That, too, sets

Mr Gowda apart. Editorial comment, Page 13

Seoul government rules out forced depreciation of won to narrow trade gap

South Korea deficit reaches record high

By John Burton in Seoul

South Korea's current account deficit reached a record high in April, but the government ruled out measures such as a forced depreciation of the Korean currency to narrow the widening trade deficit.

The \$2.2bn current account deficit was the bighest monthly shortfall in the nation's history, the central bank said yesterday. The total deficit for the first four months of 1996 amounted to \$6.5bn,

target of a \$6bn deficit for the entire year. This reflected a sudden drop in prices for such key export items as semiconductors, petrochemicals and steel, while overseas travel spending by Koreans has significantly increased.

Exports grew by 6.5 per cent to \$10.6bn in April against a year earlier; imports surged 14.8 per cent to \$12.1bn as shipments of raw materials and consumer goods from abroad

affairs, predicted the current account deficit this year would be well above the government's \$6bn target because of sluggisb global demand, an increase in raw material costs and a weaker yen benefiting rival Japanese industries.

But the government would not, as in the past, resort to such measures as a tight monetary policy, controls on private spending or depreciation of the won to limit the delicit, he

Mr Rha Woong-bae, deputy prime minister for economic tic steps were not needed

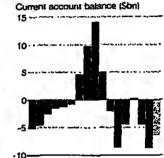
because the current account deficit was manageable, since it amounted to only 1.9 per cent of last year's gross domestic product.

The deficit so far appears not to have adversely affected general economic growth. The nation's industrial production in April, for example, was 2.6 per cent higher than output in

Economists remain confident South Korea will be able to achieve 7 per cent GDP growth this year, against 9.3 per cent in 1995, because of strong

The growing trade gap is a sign Korean industry is losing its global competitiveness and measures must be taken to correct the problem, Mr Rha added. The government must encourage industry to expand the range of export products and reduce the economy's

dependence on a few key products, such as cars, semiconductors, ships and petrochemicals. He urged the semiconductor industry to cut back on production expansion plans in the face of a global fall in comSouth Korea



1980 85

puter chip prices. Other struc-tural problems that damage Korea's export competitiveness include low productivity growth and rising wages.

Jakarta floats 35% of state bank

By Peter Montagnon and Manuela Saragosa in Jakerta

Indonesia is to float 35 per cent of Bank Negara Indonesia, its largest state-owned bank, later this year. The move should restore momentum to its privatisation programme following the disappointing response to last November's sale of shares

in its Telkom utility. Mr Bacelius Ruru, senior finance ministry official responsible for state enterprises, said the BNI float would be a domestic issue listed in Jakarta, with a tranche offered to international investors and a single co-ordinator. This is in contrast to Tel-

kom, criticised for its cumbersome lead group involving four global underwriters and an issue in New York. The lead managers failed to foresee market resistance to telecoms shares at the time. The issue was halved to \$1.59bn and its

effort to launch lt. Some brokers regard the

choice of a bank as a controversial follow-up to the Telkom issne. The banking sector is passing through a period of weakness with a large accumulation of doubtful debts, totalling 10.4 per cent of lending at the end of last year. Mr Soedradjad Djiwandono.

cental bank governor, admitted yesterday that Bapindo, another state-owned bank, came near collapse last year. He confirmed the central bank was involved in restructuring the assets of the private-sector Bank Pacific, which has hit problems over property loans by an affiliate, estimated hy bankers at some \$800m-\$900m.

Bank Negara, whose profits increased last year by 31 per cent to Rp405.8bn (\$177m), was the best managed of the state banks, he added. He had told the top management of all to be privatised eventually. by private generators. "Bank Negara seems the best prepared." he said. It had a low incidence of bad debts and could become a positive exam-

ple to other banks. The finance ministry was considering a further issue of Telkom shares, but no decision had been taken. Mr Ruru said. Brokers say such a move would make sense because the issue has risen strongly since last November and closed yesterday at Rp3.625 against the original issue price of Rp2,050. After BNI, the government would float Jasa Marga, the toll-road company, probably

early next year. Mr Ruru said. This would be followed by Perusuhaan Listrik Negara, the electricity company. It would be privatised with the issue of shares hy two generating companies, though this would require clarification of policy issues relating to pay-

price slashed in a last minnte such banks they should expect ments for electricity produced

Mr Ruru said indonesia had decided to sell no more than 35 per cent of any company being privatised, but this would still allow the government to meet its aims of raising funds to pay down high-interest foreign debt, developing the local capital market, and enhancing the management of state-controlled companies.

"Before Telkom was privatised, it took months to get a phone line; now they are marketing hard," be said.

Mannela Saragosa adds from Jakarta: Mr Sanyoto Sastrowardoyo, indonesia's investment minister, yesterday pointed to record foreign investment approvals for the first five months of this year as evidence Indonesia's controverstal policy to develop a national car was not scaring off investment. Yankee bond offering, Page 18

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Japan 13th

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 The Global Competitiveness Report 1996, £445/US\$685

Japan interest rate storm breaks

By Gerard Baker in Tokyo

A simmering political battle over Japanese interest rate policy burst into the open yesterday in an unusually public slanging match between two leading figures in the political and financial establishments.

FINANCIAL TIMES

Mr Seiroku Kajiyama, chief per cent since last September; cabinet secretary, denounced a thinly disgulsed attack on "interfering politicians" by

Japan's too banker. Mr Kajiyama took exception to remarks by Mr Shunsaku Hashimoto, chairman of the federation of bankers' associations of Japan, that seemed to suggest politicians should not interfere with the conduct of WORLD ACCOUNTING REPORT monetary policy.

"Banks are not gods. Banks are not the law," said Mr Kajiyama. "It is regrettable he asked us to keep silent. We shall have to rectify such arro-gance." Mr Hashimoto had nothing to add to his com-ments on Tuesday that interest rate policy should be for the Bank of Japan to decide.

At the beart of the row is a growing frustration and measiness among politicians at the present monetary policy conducted by the Japanese central bank. Several cabinet members have recently urged the bank to raise Japan's record low interest rates.

Their concern, with an eye to the general election that must be beld within the next year, is that Japan's celebrated nation of savers is losing more than it gains from an easy monetary policy. The official discount rate

most normal deposit accounts at banks at present yield interest rates even lower than that. In February, Mr Wataru Knbo, finance minister, suggested interest rates should

of older people who rely beavily on bank interest to supplement their pensions. Last week, Mr Kajiyama called on financial institutions to reconsider their low interest rates on behalf of all depositors. The political concern is made more potent by the suspicion that savings rates are being kept deliberately low to assist the country's highly

be raised to ease the problems

It is thought savings rates are being kept low to help the highly unpopular banks

unpopular banks. The easy monetary policy has certainly belped them: it was the main reason they were able to make such progress in disposing of their bad dehts in the financial year ended in March.

Bankers, stung hy political criticism of their role in the ing loan companies, towards which the government is asking the taxpayer to contribute more than Y600bn (\$5.5bn), have begun to bit back.

On Tuesday, Mr Hashimoto who is also president of Sakura Bank, one of the leading lenders to have benefited from the low interest rates, said: "Financial policy is the exclu-sive jurisdiction of the Bank of Japan. Those from other circles should not be telling the bank what to do about it."

The debate sheds a different light on the relationship between the government and the central bank. Interest rate policy is set by the bank, in consultation with the finance ministry. But, as the politicians' frustration demonstrates, it is the ministry officials, rather than ministers who have real sway. Politicians, even ministers, are often reduced to the role of lobbyists for constituencies.

Calls bave come for the bank to have greater independence from government. They have been backed by the governor of the bank, Mr Yasuo Matsus-hita. The dispute suggests the effect of such a move would be unctear; the change would simply mean substituting controi by one set of bureaucrats, the finance ministry, for another: the Bank of Japan.

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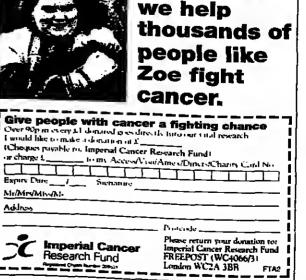
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By John Burton in Secul and James Buxton in Edinburgh

Scotland yesterday won its

first hig inward investment

from South Korea, with an

agreement hy Shinho Elec-

tronic Telecommunications to set up a £8.2m (\$12.5m) assem-

Glen, the Scottish electronics

CRSDAY MAY 30 ly,

together

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Markets Accounting interpreting e Listings

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fail to draw weary voters Trigg man By John Kamptner in Belfast Northern Ireland's 1.1m voters are being asked today to elect representatives to a body that has no home and will have little influence. The Hussian It may be the Dwill arise oot of one of the world's more convoluted electoral systems will shadow the real business - the all-party talks on the future of the province which begin on June 10.

Yet the results will have an important influence on those talks. Some 23 parties are contesting the seats for the forum. Sinn Fein has said it will not take up any seats it wins although it will seek to join the oegotiations. The top 10 parties at the forum will send delegations to the talks. Although each group will be represented equally at the negotiations, the size of their mandate will help determine bargaining strength.

The polls were conceived by Mr John Major as an artful means of extricating the UK government from its morass over the issue of paramilitary weapons. The prime minister announced the idea of elections in January in response to a report it had commissioned from an international team led by Mr George Mitchell, a former majority leader in the US

The British used the elec-

Competition among British regions is set to intensify following the announcement hy indus-trialists in the English Midlands of a planned regional business group to challenge rivals in northern England, Richard Wolffe writes in Birmingham. The group, to be called the Economic Development Forum, will draw together private

and public sector representatives in an attempt Shinho Tech is important Shinho vice-president, said the because it is ground-breaking and I am determined that their

investment will be followed by other Korean companies," be-

. The Shinho plant will be in the eastern Scotland town of

unionists the dropping of their insistence on the IRA handing

Sinn Féin, its political wing was allowed into talks. Instead

Mr Mitchell spoke of the politi-

cal and military aspects being

Both Sinn Fein and the

and Labour party

mainly Catholic Social Demo-

accused Mr Major of erecting

another hundle to talks and of

seeking a repetition of the

failed Stormont assembly in

Northern Ireland in the 1970s

The government of the

Republic of Ireland urged Lon-

don to downgrade the role of

the convention. The forum that

was finally agreed will be little more than a talking shop, mod-

elled largely on the Forum for

Peace and Reconciliation estab-

lished by Dublin shortly after

the first IRA ceasefire in

August 1994. Its work was

suspended after the resump-tion of republican violence last

The people of Northern Ireland will be casting their

hallot for the 20th time in 23

years. The last elections, to the

European Parliament in 1994.

produced a turnoot of only 49

However, apathy could be

exacerbated by the voting pro-

cedure. In general elections Northern Ireland, in line with

the rest of the UK, operates a

tions as a device for selling to first-past-the-post format.

addressed in tandem.

and 1980s.

some of its arms before

company had selected Scotland ause of its extensive electronics industry. The project will receive an unspecified amount of regional selective assistance.

Last autumn Chung Hwa, a government, who is visiting Gienrothes and will create 280 Taiwanese company, agreed to east Asla. This decision by jobs. Mr Lee Soon-wook, the set up a £260m plant in Lanark

Boundary chaoges bave increased the oumber of coo-

stituencies to 18. In local gov-

ernment and European elec-

tloos proportional representation (PR) is used.

The Ulster Unionists, the

largest pro-British party in

Northern Ireland, have always benefited from the traditional

method, as their support is

concentrated in specific seats,

while the Democratic Unioo-

ists and the SDLP lobbied for

PR. The various systems have

in the past produced consider-

able tactical voting, with the

DUP emerging as the top party in 1994, as against a third place

and 13 per cent of the vote in

the 1992 general election.

tloos

the rest.

"dog's dinner".

east Midlands. The new forum will be modelled on rival bodies such as the Northern Business Forum and the North West Partnership, which lobby for their respective regions. The Midlands forum will be the first of its kind in the region since the abolition of regional economic plan-ning councils in 1979.

to attract more international investment to the

Scotland wins its first big Korean investment

shire in cantral Scotland to manufacture cathode ray tubes for computer monitors and

Mr Forsyth will meet representatives of South Korea's LG Electronics who are planning inward investment in the UK. Indications were that the company would choose Wales or microchip plant. However, Mr Forsyth hopes to persuade the company - which changed its name from Lucky Goldstar last year - to open a second plant in Scotland. Other big South Korean

inward investment projects in the UK include Samsung Electronics, which has opened a consumer electronics factory in north-east England, attracting several Korean subcontrac tors to the area. Daewoo plans to open a \$1bn semiconductor plant in Northern Ireland in a joint venture with Texas Instruments.

Last week Mr Forsyth

densha, a Japanese electronics company would establish a plant at Dunfermline in east-ern Scotland to make printed circuit boards. The investment would be worth £6.5m.

He also said that Tenma, a Japanese maker of plastic mouldings, was expanding its plant st Cumbernauld near Glasgow with a £5m project which would create 119 jobs.

Both companies will supply the Japanese company Canon which last year announced a £10m scheme to manufacture inkiet printers for the European market at its plant in

Canadian banks in court today over Canary Wharf

By Robert Rice in London and Bernard Simon in Toronto

Clifford Chance, the UK's largest law firm, will today challenge the jurisdiction of the Canadian courts to hear a lawsuit brought by four Canadian banks which are suing it for C\$1.3bn.

The banks iocurred heavy osses in the early 1990s from the financial collapse of the Canary Wharf development in London's Docklands district. They allege that they lost out in the restructuring of the development as a result of incorrect information provided by Clifford Chance in a 1989 legal opinion.

Under a compromise, voters are being called upon to cast Writs were filed by the banks simultaneously in London and Ontario last year and the law only one vote for their prefirm maintains the case should ferred party. The 18 seats will each return five delegates. be heard in England, it will Each party that receives a facargue at a hearing in Toronto tor of one sixth of the total will today that most of the documentary evidence and witreturn one member. An even more difficult statistical operanesses are in Londoo and that tion will determine who gets the administration of Canary Wharf was goveroed by Finally, the aggregate oum-English law.

ber of votes across the prov-ince will be counted to apportion two extra seats to each of the top 10 parties. This device was designed to ensure participation in the talks by the two small parties representing loyalist paramilitaries. It is oo wonder that the sys-

The law firm refuses to discuss its indemnity insurance cover or say whether a higher level of cover available in the UK is one of the reasons it is challenging the jurisdiction of the Ontario courts, Canary Wharf was put into administration in May 1992 following the tem has been described as a collapse of its parent, Olympia & York Developments, the



The tower that dominates the Canary Wharf complex

property group owned by Can-ada's Reichmann family. The claim of the four banks stems from a £400m "equity loan" which they provided to

O&Y in 1989 to capitalise Canary Wharf's main holding company. O&Y pledged its shares in the holding company as security for the loan. The banks are Royal Bank of Can-

ada, Canadian Imperial Bank of Commerce, Bank of Nova Scotia and National Bank of

The banks say Clifford Chance advised them that the holding company was a private unlimited liability. They allege that they were therefore unable to enforce their collateral without becoming liable themselves for the project's entire debt. They also say that as "equity loan" providers they were excluded from the restructuring and lost out to the providers of a £500m "construction loan" which was secured by a physical mortgage over Canary Wharf.

Clifford Chance will argue that the banks would have made the loan no matter how it was structured, giveo the heady climate in the property market in the late 1980s and the Reichmanns' reputation.

Three of the four banks also participated in the £500m "constructioo loan" and the law firm maintains they knew from the start that as equity lenders they would lose their mooey if O&Y got into difficulties because the construction lenders would take security over the physical assets.

The banks will argue today that the case should be heard in Canada because the loan was concluded in Toronto and the documentation was completed under Ontario law.

UK NEWS DIGEST

Gas pipeline to Belgium financed

The interconnector project to build a subsea gas pipeline from the UK to Belgium has finalised a £450m (\$684m) leasing agreement to finance the construction. The deal, with Abbey National, is believed to be one of the largest leasing agre ments with a single bank in the UK. The agreement, which can be raised to \$500m, completes the financing package for the project, which is also receiving £350m from the European Investment Bank.

The interconnector will link the UK with the gas grids on mainland Europe and open the way for exports of UK gas. The pipeline is owned by nine international gas companies: Amerada Hess, BP, Conoco, Distrigaz, Elf, Ruhrgas, Gazprom, British Gas and National Power. David Loscelles, Resources Editor

Ministry to sell Gulf war gold

The Ministry of Defence has decided to sell its stock of 16,000 gold sovereigns carried by Royal Air Force pilots and soldiers in the elite Special Air Service during the Gulf war. Sover-eigns were equivalent to £1 until notes were introduced early this century but a few are still struck for commemorative purposes each year and these days the gold makes them worth moch more than the standard £1 coin. The sovereigns being sold by the ministry were bought especially for the Kuwait conflict and were sewn into the uniforms of air crews and special forces in case they needed to barter their way out of trouble behind enemy lines.

Presentation packs of sovereigns, with certificates signed by Sir Peter de la Billière, commander of the British contingent in the Gulf, will go on sale later this summer. They are expected to sell for around £60 each, with the sale as a whole raising £1m towards the £22bn annual defence budget. Bernard Gray, Defence Correspondent

Balls 'produced by child labour'

The Euro 96 football championship, which starts on June 8 faced allegations last night that authorised souvenir balls were being produced by child labour in Pakistan. Leaders from international trade union organisations claimed children aged under 14 were used in making balls bearing the Euro 96 logo. The balls are labelled as having been licensed by Uefa, the European football association.

An estimated 80 per cent of the world's footballs are pro-duced in Pakistan, mainly around the north-eastern city of Sialkot. The souvenir balls cost about £4 (\$6.08) to make and retail for an estimated £50 in Europe. As many as 100 companies have been licensed by Uefa to produce goods and services for the championship. The accusations were questioned last night by Mr Gerhard Prochaska, managing director of ISL, the company giveo exclusive marketing rights by Uefa for Euro 96. He said he had been in touch with the three companies licensed to produce the championship logo – Umbro in the UK; Tramondi in Switzerland and Smits Plastics in the Netherlands - which had told him that "nothing illegal was being done". Union leaders want Fifa, football's world governing body, to introduce a code of conduct for manufacturers and subcontractors aothorised to make products for future events. Robert Taylor, Employment Editor

New chief for tourist board

Mr David Quarmby was yesterday appointed chairman of the British Tourist Authority and the English Tourist Board. Mr Quarmby resigned in March as joint managing director of J.Sainsbury, the supermarket group. He takes op his oew post officially oo Monday in succession to Ms Adele Biss.

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NBP reserve the right to reject any bid withnut assigning any reason and is not obliged to award the contract to the lowest bidder. NBP may select while or part of the nffer and may change the scope of implementation, after mntual agreement.

RFP documents may be purchased from The National Bank of Pakistan, Electronic Data Processing Division, Head Office NBP Building, LL Chnudrigar Road, Karachi, Pakistan Fax No. 92-212413629, upon payment of US\$500 (nnn-refundable). Any query nn the RFP may be sent to the above nffice.

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Historically, the spotlight of medical research has fallen on high-pro-file diseases such as cancer, heart disease and Alzheimer's. These are conditions that strike down innocent individuals.

Surveys of public attitudes, by contrast, show that obese people are often thought to be the authors of their own misfortune rather than suffering from a disease.

Obesity, meanwhile, has been low on the drugs industry's list of priorities. Not one of the top 150 bestselling drugs on the market is aimed at treating the condition. And the medical profession bas tended to prescribe self-treatment such as dieting and exercise.

Statistics suggest, however, that obesity is in the same league as the world's most serious diseases in terms of relevance, risk to health, economic cost and demand from the consumers for treatments.

The World Health Organisation says that up to 20 per cent of Euro-peans and white Americans are seriously overweight. The figures are higher for minority groups and regions of the world outside Asia and Africa. Obese people have an increased risk of contracting heart disease, strokes, diabetes, gall hiadder disease, osteo-arthritis, cancer, varicose veins and infertility.

Researchers at the Université Paris-Dauphine last year calculated the direct medical costs to France of obesity at FFr12bn (£1.5hn), about 2 per cent of the country's total bealthcare costs. They said that the estimate was conservative but in line with other countries' views that obesity cost between 2-5 per cent of healthcare spending. Globally, this could mean that up to \$100bn (£66hn) is spent each year on dealing with the medical consequences of obesity.

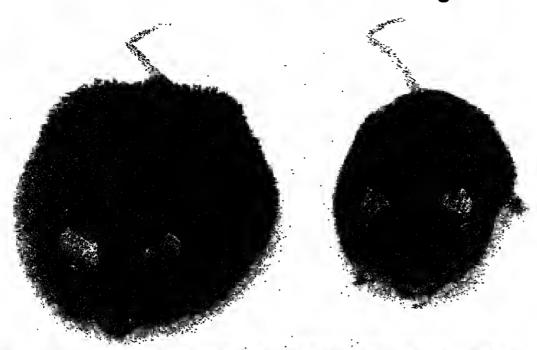
In addition, there are non-medical markets for weight control, said to be worth at least \$10hn a year in the US alone. And there are social costs: obesity is correlated with low academic and career achievement.

As if to underline the demand for treatments, overweight people can go to great lengths to try to deal with their condition. Apart from special diets and exercise regimens, some have their jaws wired together so that they can only consume liquids. Others resort to gastric surgery in which food is physically diverted so that less is digested. Most of the drugs used have serious side-effects, not least

of which is that they are addictive. All this effort seems to be of little use. The incidence of obesity is increasing: the proportion of obese people in the UK, for example, more than doubled between 1980 and 1993 to 16 cent of women and 13 per cent

The hunt is on for treatments for a condition neglected by the drugs industry in the past, writes Daniel Green

Genetics wrestles with obesity



In the past, treatments bave relied on dealing with the environmental and psychological causes of obesity. Stephen Bloom, professor of endocrinology at the Hammersmith Hospital in London, says that obesity was almost unknown in Victorian times. Since the genetic make-up of species changes over thousands of years rather than a few decades, the rapid increase in obesity must be because people eat more and/or exercise less.

Although environment and behaviour must play some part. other factors are important, says Bloom. He points to Scandinavian research on siblings brought up separately. It shows a strong correlation between close blood relationships and a tendency to be overweight. His estimate is that "maybe 50 per cent of obesity has a genetic root". That implies that there might be treatments for obesity based on genetics.

This ldea was given a critical

boost in 1994 with the discovery at Rockefeller University in New York of a gene, named ob, linked to obesity in mice. Within months. researchers found the protein lep tin, the production of which is triggered by the ob gene. They discovered that injecting leptin made

obese mice lose weight. Finding the gene triggered widespread commercial interest - the Californian drugs company Amgen paid \$30m for the rights to the gene. Earlier this month Amgen announced that it had started the

first human clinical trials with lep-

tin. If they are successful, a drug could be launched after 2000. The excitement over the ob gene has been tempered by findings that obese people do not have defective ob genes. Moreover, they have high levels of leptin, casting doubt on the idea that injecting more might cut

These observations have been countered by arguments that obesity may not be a genetic "disorder"

in the way that Down's syndrome is, but could be part of a natural genetic variation in the way that height or eye colour are.

As Bloom says: "Any species that may have to deal with periodic food shortages or famine should have fat members." He says that "overweight" people may have played an important role in keeping communities going in times of food shortage.

In addition, high levels of leptin in overweight people do not mean that they will not be susceptible to treatment with further doses. Some diahetics have naturally high levels of insulin and can nevertheless be treated with extra insulin.

This apparent paradox may be the result of defective "receptors" in the body that accept leptin (or insulin). That could mean that normal amounts of leptin did not have a strong enough effect and an individual put on weight. Extra leptin might end up triggering a normal number of receptors. Only clinical trials will resolve this issue.

Scientists are not relying on lep tin to treat obesity. Four further genes linked to obesity have been identified since the discovery of the ob gene. They have been named the agouti, tuh, dh and fat genes.

Michael Steinmetz. vice-president of pre-clinical research and develop-ment at Roche in the US, says that the most promising are agout, tub and oh. The mechanisms of these genes are now being studied.

In addition, there are ways of exploiting the knowledge of the oh gene other than injecting leptin.
Roche, in collaboration with the biotechnology company Millennium, is looking at what happens once leptin has made contact with the leptin receptor on the surface of cells. As with all receptors, there follows a cascade of chemical signals inside the cell. Perhaps a drug for obesity would work hy interfering with the process.

This route has the advantage pos-sibly of being more specific than injecting leptin because leptin receptors exist all over the body and only a small proportion are likely to be linked with obesity. Yet another way forward arises from the observation that the effects of injecting leptin last for several days, while it takes only a few hours without food for one to

feel hungry. The search for proteins that are the short-term equivalents of leptin has already uncovered at least two. One, called GLP-1, triggers satiety. Rats injected with GLP-1 eat less than those that do not. Another, called neuropeptide Y (NPY), has the opposite effect: injections stimulate feeding.

Bloom has worked on GLP-1 but says that NPY is more likely to lead to a drug because chemically it is easier to make a molecule that blocks a biochemical process than one that encourages it.

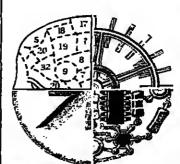
Such work is at the very earliest stages of research. Steinmetz says: Unless we are very lucky, we still have a long way to go. I'd het that the advances will happen with the agouti and oh genes."

Bloom, too, warns that many obstacles lie ahead. He says, for example, that, like leptin, NPY protein receptors also exist all over the body "with perhaps just 1 per cent of them related to appetite". Little is known of the physiological effect of blocking all the receptors.

None of this uncertainty is likely to hold back research into treating obesity. The demand is too great and the need, both medical and economic, poorly met. Revolutionary new treatments based on recently acquired genetic knowledge are unlikely this decade, but the chase

The series on human genes continues next month with o look of breast

Worth Watching · Vanessa Houlder



Final flicker for faulty fluorescents

The constant flickering of faulty fluorescent strip lights can blight the life of people who work near them. Philips Semiconductors believes it has overcome this problem with the development of an electronic starter switch which is more reliable than conventional switches because it has no moving contacts. If the

fluorescent tube does not ignite at the first attempt, the starter will make no more than six additional attempts to light it.

Netherlands, tel 243532509; fax 243533218

Digital analysis in breath test

Breathalysers might eventually be replaced by digital speech analysis, according to US researchers.

Scientists at Georgia Tech and Indiana University have conducted preliminary research that shows that intoxicated speech is characterised by abrupt changes in pitch and energy and unsteady opening and closing of the vocal chords.

The researchers envisage that speech analysis could be performed by computer, based on a mathematical formula that could calculate the probability that the person was intoxicated. Georgin Institute of Technology: US, tel 404 8943444; fax 404 8946983.

Crackdown on Internet security

Security issues are still preventing many businesses from offering services on the Internet. But V-One Corporation of Maryland has developed a package that combines smartcard, encryption and firewall technology designed to tackle the security problems of electronic

commerce.
Unauthorised employees and customers are issued with smartcards that allow them to log on to a business's computer system that runs the Smartgate package. After mutual authentication, a one-off code is generated that encrypts the information transmitted across

the Internet.
As well as allowing financial transactions to take place over the Internet more securely, the software can also be used to make an internal computer network more secure. The Smartgate technology is distributed by Internet Smartware in the UK, Internet Smartware: UK, tel (0)1753 311068; fax (0)1628 660414.

X-ray processing the dry way

group, has developed an X-ray processing technique that does not require a darkroom or water-based chemicals. Its research suggested that radiologists and radiographers were frustrated with the cost and fuss of traditional wet chemical processing. 8M believes that its new system has cost and environmental advantages since hospitals will not need to buy and dispose of processing chemicals or install specific plumbing, air conditioning and darkroom.

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The technique allows silver balide film to be processed by applying heat at a very precisely controlled temperature. The resulting image has the same diagnostic quality as those produced by traditional techniques. 3M: UK. tel (0)1344 858875; fax

(0)1344 858248.

GPS keeps tabs on trains

A railway public address system that antomatically informs assengers about their destination has been developed by Finnyards Electronics, a Finnish engineering company. A GPS receiver gets signals from navigation satellites to provide information about the train's location to an accuracy of 100m. This triggers recorded announcements, which are stored on a CD-Rom, when

predetermined points in the

Firmyards: Finland, tel

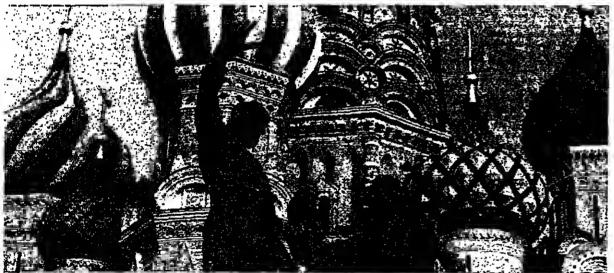
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AUSTRIAN AIRLINES 2

FT GUIDE **GOURMET TOURS OF FRANCE**

in association with the Omega Tourer from Vauxhall

Published with the FT in the UK on Saturday 18th May, this guide recommends chateaux and country houses in which to stay, restaurants and bistros on and off the beaten track, as well as places of historical and cultural interest. There is also a special section which gives you advice on how to get the best out of a motoring holiday in France.

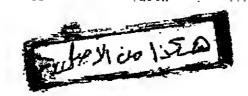
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Magic in eccentric America

t Cannes the Coen brothers claimed that their thriller Fo*rgo*, Which won Joel Coen a richly deserved best director prize, is based on a true story. But they tended to chuckle mysteriously and look shifty when asked for names and dates.

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Is it all a con? Is there no real-life prototype at all for the Minnesota car salesman played bere with wirebrush hair and nervous grin by Wil-liam H. Macy, who connives at his own wife's kidnapping with the aim of taking a cut of the ransom money put up by his unsuspecting father-in-law?

And did no godfnrsaken crooks such as those impersonated by Steve Buscemi (short and nervous) and Peter Stormare (tall and spectral) ever parlay bostege-taking into homicide by killing one inquisitive patrolman and two innocent drive-by witnesses? Even if they did, we doubt

they saw the funny side of things. The Coens - director Joel and co-writer producer Ethan - do so triumphantly there. Forgo, their best film since Miller's Crossing, happeus at tha point where horror intersects with provincialism. Set in the makers' home state, the story sidelines Minneapolis, not to mention the eponymous Fargo featured only in a prologue, for the knee-high snow and eccentric neighbourliness of Brainerd.

The axe-carrying statue of its native son Paul Bunyan, rearing surreally at the city limits, prefigures the film's nasty denouement. And the town's live-months-pregnant police chlef Marge Gunderson (Frances McDormand) establisbes the keynote of goofy backwoods bonhomie. This wonderful actress with the surprised eyes and high fuzzy voice also seems to have an extra set of teeth in her mouth, no doubt devoted to chewing

life up before swallowing it. Everyone does that here. The singsong Scandinavian-American accents signal Nordic cantion. For Marge, even obtaining a description of Buscemi from a garage hand is like pulling a wisdom tooth. He: "Funny kind of guy." She: "What way?" He: "Oh. General kind of way."

Joel Coen

FROM DUSK TILL DAWN Robert Rodriguez

MY LIFE AND TIMES WITH ANTONIN ARTAUD Gérard Mordillat

Everything seems tainted with diffidence or innocence, including the deeds of blood. Midway through the violent kidnapping of Mrs Macy, Stor-mare sustains a small cut to his finger. "Unguent, I need unguent!" he intones, diverting solemnly for a smash-and-grab raid on the bathroom cabinet. And after several deaths, debacles and near-misses, the movie's plot ends in a forest clearing where the sight of a dismembered human leg (still wearing its boot) being pushed into a wood-chipping machine seems merely the last insouch ant flourish in a story full of

Ever since Blood Simple and Raising Arizona the Coens have had an eye for the absurdity of evil. In Fargo none of the lawbreakers has much of a clue about the consequences of their acts, and scarcely more of a clue about the practicali-

Macy's ransom-coveting car salesman cannot even handle his impatiant, gung-ho father-in-law (Harve Presnell), who precipitates disaster by heing the only character to know his own mind. In the kingdnm of the snowblind, there is none more dangerous than he who sees.

The Coens see everything, yet their wry omniscience is never smug. There is a wonderful overhead shot, like an abstract painting, of a snowcovered parking area studded geometrically with cars and boxed trees. For some seconds we cannot even work out what It is Then the familiar asserts itself, touched by that brief magic of non-recognition.

The whole of Fargo is like that. A genre movie of deceptive double-take simplicity makes the old seem fresh and



Frances McDormand in the Coen brothers' 'Fargo', their best film since 'Miller's Crossing'

mischievously wise and atavistic wit.

From Dusk Till Dawn, another comedy thriller about hostagetaking, drives south in search of absurdity. Just across the Mexican border a chase story about two bank robbers (George Clooney, Quentin Tarantino) fleeing the law with a kidnapped preacher (Harvey Keitel) and his two children turns, with no warning or byyour-leave, into a monster

One moment we are pounding the Texas blacktops with guns, police searches and slick dialogue. The next we are in an Aztec bar regreting we did not take out vampire insurance. The clientele turns into the fresh seem kissed with a ravening batpersons even as a law 'gainst retards servin'

they eat and drink. The strip dancer has become a snakewoman. And the floor by climax-time is beginning to resemble that of an abattoir.

The film is directed by Robert Desperado Rodriguez from a screenplay that Tarantinn wrote before Reservoir Dogs. We could have dated it ourselves. As juvenilia go, it can barely toddle. Only the pre-Mexican section is partly saved, by the nervy unpredictability of the performers. While Clooney and Keitel

clench charismatic cheekbones, Tarantino steals several scenes as a bespectacled psychopath for whom all women are candidates for rape and all storekeepers and waiters for racism or bigotry. "Ain't there

food to the public," he snarls when sitting down in a diner staffed by Mongoloids. This is the Tarantino we love

to loathe, spitting out his prejudices in the form of cant-seek ing anti-PC missiles. In his best movies talk is its own special effect, a fact lamentably unrecognised here. Once set down In Mexico, the film expends needless money and ingenuity on visual gimmicks, ranging from the death toll flicking up in lighted numbers on a fruit machine-style scorehoard to the fists that crash straight through victims' faces to the man with a crotch-flap in his trousers that opens up to reveal a pointing gun.

My Life And Times With Antonin Artoud must qualify

Theatre/Alastair Macaulay

Comedy warms cool open air

lankets, anoraks and mink coats were worn by this year's opening night audience at the Open Air Theatre, Regent's Park, on Tuesday and yet it was good to be there again. Good to be back at the Open Air, where there is always a time when birdsong threatens to drown the actor, and good to see Shakespeare's Comedy of Errors again, with its high confusion of double identical lan Talbot's staging of this

play has no great subtleties and no deep urgencies, but it tells its tale with panache. There is a dash of light-cartoon exaggeration in almost all the playing, and this carries the day. The Comedy of Errors, after all, is a farce: its story is not just about the confusions between identical twin masters and identical-twin servants, it is also about the sexual imbroglios this catches them in. This is the closest Shake-

speare came to the Roman-Italian comic style associated most with Terence and Plautus, and it is fascinating to compare it with his more moving and more cypress-shadowed comedy of twins, Twelfth Night. More poignancy could be found in it, true, but I have known productions much more vulgar than Talbot's. It is curious that the classic Rodgers-and-Hart musical version of this play, The Boys from Syrocuse, (brilliantly staged in the Open Air Theatre by Judi Dench in 1991), has passages of lyricism and hearthreak ("You bave cast your shadow on the sea", "Falling in love with love") that are more touching than Shakespeare's original ever seems to offer in the theatre.

Claire Lyth's designs are pretty, and vaguely Edwardian. Her masterstroke is in costuming the two Antiphouses and two Dromios so cannily that, even though the actors of the roles are not utterly look-alike, they sometimes look enough alike to confuse us. There really are momants when you have to ask: Now, which one is this one?

But this is also due to Talbot's skill in directing and casting. As Dromio of Syracuse, Gavin Muir delivers very funnily his smutty comparison of



Lively: Paula Wilcox

the maid Nell to a globe of the world; as Dromio of Ephesus. Philip Fox matches his cheerful, brisk, bewildered manner Peter Forbes, as Antipholus of Ephesus, and David Cardy, as Antipholus of Syracuse, have the same swagger and charm.

The saucer-eyed Paula Wilcox is a lively source of wifely outrage as Adriana, and Debra Beaumont is charmingly vulnerable as her sister Luciana. Everything, as I say, is fairly frothy: so that Christopher Biggins, whose playing of the tiny role of Doctor Pinch is camp and over-the-top, fits into the production more agreeably than Michael G. Jones, whose awfully earnest way with Egeon (father to the Antipholuses) is a bore.

These days, of course, this story of long-sundered twins would be staged not in the theatre but on the Oprah Winfrey show. As one Dromio and one Antipholns would be re-introduced at long last to the other Dromio and the other Antipholus - from whom they had been separated at birth and yet with whom they had sometimes shared the same town - Oprah would cry a little and the audience would get hlinky too. One day some smart-alec director will stage Shakespeare's play that way: but until then it is good to laugh at his Ephesian antics in the open air.

In repertory at the Open Air Theatre, Regent's Park.

Wigmore Recitals/Richard Fairman

Living up to media hype

be power of the media to create a star has never been greater. On two successive evenings last week the Wig-more Hall was sold out, and television cameras and record company executives jostled in the foyer - the draw being a pair of young singers who have been propelled into the top league with media help. It was the TV coverage at

the Cardiff Singer of the World competition in 1989 that brought Dmitry Hvorostovsky to notice. The exhibitantion of seeing the young, super-confident, Russian baritone exhibiting his prowess for the first time in the west won him a loyal following, which is with him to this day.

Hvorostovsky's Wigmore recital was sold out twice over. in spite of the fact that the second half was devoted to the premiere of a new song-cycle hy Georgi Sviridov.

Entitled Petersburg, the cycle comprises nine poems by Alexandre Blok from the early years of the century. They are mostly gloomy, the ontpour-ings of "the children of Russia's dreadful years", and Sviridov sets them with restraint as a simple bass line with voice above, part minimalist, part folk-song. The invention is fairly thin.

bnt Hvorostovsky filled the arching vocal lines with rich expression. The cycle was written for him and Sviridov evidently knows his strengths, as long-breathed, legato singing is what Hvorostovsky has always done best.

Wherever Tcbaikovsky or Mahler, the evening's other two composers, wrote in the same style, the singing hlossomed. The rest was thick,

unvaried and loud, in spite of Mikhail Arkadiev's intelligent accompaniment. Hvorostovsky has yet to rise to the higher level he has long promised.

Among his andience was Cecilia Bartoli, whose own recital was due the next night a nice touch. Bartoli's popular fame is thanks to ber recordings, which have enjoyed exhaustive marketing by ber record company. Her live performances are relatively few, most likely because Bartoli's career does not depend on them.

Hers is a fairly small mezzo voice, so she also has to pick her live engagements carefully if they are to enhance, rather than detract from, ber reputation. The Wigmore Hell is ideal and this recital showed off her talents with an immediacy that she is unlikely to manage in a big npera bouse.

Her programme concen-trated on the still quite limited repertoire she has explored on disc - Italian songs by Schubert and Beethoven, Rossini and Bellini, and Haydn's Arianno a Naxos cantata.

Within this small compass, however, Bartoli brings everything vividly to life. There i something of the authentic Italian style about her singing. in the way she carries the voice along the vocal line and gets the words to tingle with feeling, that is special to her and to be cherished.

Perhaps some nf her effects (like ber breathy excitability) are starting to sound like mannerisms. And Gyorgy Fischer reduced the pianist's role to a soft-focus background. Otherwise, this was pure delight.

Cecilia Bartoli's recital sponsored by Risk Publications.

Theatre/David Murray

as the movie title least likely

to cause pavement congestion

nutside the average cinema

Yet Gerard Mordillat's homage

to the French actor, stage

director and existentialist has

its charm. Shot in scarified hlack and white, as if exposed to an atom blast during pro-

cessing, the film walks, talks

and improvises like an old

There is something Godard-like, too, about Sami Frey's

Artand, an ill-shaven gnome-

like hermit in a heret and long raincoat. He rails, muses, phi-

losophises and invents the Theatre of Cruelty. And the

Paris cafés, as they always do

in such films, sit in a sacra-

mental pall of cigarette smoke,

dimly aware that history is

being made at a table.

Godard movie.

Stirrings and sympathy

t the Watford Palace Theatre we have a revival of Kindertrun-Sport by Diane Samuels, co-winner of the Verity Bargate Award four years ago. Already it has been widely seen ahroad, since its subject triggers natural sympathy: what happened to those German-Jewish children who were packed off just before the last war to the safety of English families, perhaps never to see their own pareots again.

On the one hand, Samuels' play is obviously a product of conscientious research. She talked at length to several of those "children", now in their 60s, and to some of their children; and she assures us that although her heroine Eva is a fiction, most of what happens to her did happen to someone

One does not doubt it: stud-

of Kindertransport have the ring of reported speech, and a sincere anxiety to re-tell it like it was. On the other band. Samuels'

drama (not quite the same thing as the play) is essentially concerned with mothers and daughters - emphasised by the curious fact that the Eva, Diana Quick, was last seen as the identical linchpin in If We Are Women, a gentle Canadian piece: daughter of two very dif-ferent "mothers" (one Jewish), mother herself of a daughter stepping uncertainly into adulthood, husbandless through death or divorce. Here her role has an extra

twist, being shared with a very young actress who plays her junior wartime self. Not really as a "before" to her "after as a "before" to her "after"; because the child's experiences

ded with little documentary details, the re-lived memories of flight, exile and final determination to grow up English are constantly intercut with grown up Eva's present - i.e. 1980s' - problems. The persistence of (Jewish) memory thus dominates the action.

And yet what actually hap-pens has a great air of contingency. Yes, Eva's unhappy reunion with her mother Ruth Mitchell adequately noble and suffering the sole survivor from the original cast - is crippled by her rejection of her first tongue and even her given name (she has chosen to become an "Evelyn"). Yes, her daughter Faith (Dido Miles) is driven later to hysterical renonncings when she discovers Eva's concealed origins. But

why, exactly?
Though the successive little crises between each available pair in turn are ritualised screaming-matches, they

obscure motivations. As the younger Eva, Julia Malewski, making her first stage appearance, copes valiantly against fearful odds: having to play her from 9 years old to 17, and variously in well-spoken English (to represent plain German), bursts of real, "native" German, and heavily accented English for her first years in Manchester. We edmired ber efforts, but never believed.

Quick's elder Eva was brittley poised and strung-out in modern mid-Atlantic tones, a far cry from Jean Boht's pragmatic Northern kindliness as her second mother. Did that matter? I was discombobulated by the feeling that this was a women's play, and that I was of the wrong sex to fathom what was really stirring.

Performances until June 15.

INTERNATIONAL ARTS

■ AMSTERDAM

EXHIBITION Rijksmuseum Tel: 31-20-6732121 Disegni. Drie eeuwen Italiaanse tekenkunst uit eigen bezit: 80 drawings by Italian artists from the 15th to the 18th century, including works by Pierio di Cosimo, Sebastiano del Piombo, Frederico Barocci, Carlo Marata and Giambattista Tiepolo; to Aug 4

■ BARCELONA

EXHIBITION Fundació Joan Miró Tel: 34-3-3291909 Alain Fleischer. Photographa: part of the Primavera Fotografica. Meischer'a work demonstrates the desire to evoid the limits of a single artistic discipline. Coinciding with the exhibition is a cycle of Fleischer's films; to Jun 18

BERLIN

CONCERT Konzerthaus Tel: 49-30-203090 Berliner Sinfonie-Orchester.

soprano Françoise Pollet In works by Schubert, Chausson and Mendelssohn; 8pm; May 30, 31; Jun 1 Tel: 49-30-2614383 Kammer-Sintonia Berlin: with

conductor Alun Francis perform

conductor Gilbert Varga and

works by Mozart and Françaix; 8pm; EXHIBITION Neue Nationalgalerie Tel: 49-30-2662662 Georg Baselitz: retrospective devoted to the work of Georg

10 sculptures from European and

selitz - some 100 paintings and

American collections: to Sep 29 **■ COPENHAGEN**

DANCE **Det Kongelige Teater** Tel: 45-33 14 10 02 Le Conservatoire or A Newspaper Courtship: a choreography by Bournonville to music by Hspaulty, performed by the Royal Danish Ballet; 8pm; May 31

DUISBURG

Tel: 49-203-2832630

Altersbildnisse in der

DANCE Theater der Stadt Dulsburg Tei: 49-203-30090 Rambert Dance Company London: perform the choreographies Stabat Mater by Robert Cohan to music by Vivaldi, Rooster by Christopher Bruce to music by The Rolling Stones, and Axioma 7 by Ohad Naharin to music by J.S. Bach; 7.30pm; Jun 1 EXHIBITION Wilhelm-Lehmbruck-Museum

Abendiändischen Skulptur: old aga in Western sculpture. Tha 72 works include Egyptian, Greek and Roman sculptures and works by artists such as Rodin, Lehmbruck, Koltwitz, Picasso, Marini and Dali: to Jun 30

■ LEIPZIG

CONCERT Gewandhaus zu Lelpzig Tel: 49-341-12700 Es ist ain trotzig und verzagt Ding, BWV176: by J.S. Bach. Performed by the Gewandhausorchester and the Thomanerchnr, conducted by Georg Christoph Bitler; 3pm; Jun 1

LEWES **FESTIVAL**

Glyndebourne Opera Festival Tel: 44-1273-812321 Glyndebourne Festival Opera: this year's edition, initiated by John Christie and his wife, soprano Audrey Mildmay, features 74 performances of six operas: Handel's Theodora, Barg's Lulu, Tchaikovsky's Eugene Onegln, Rossinl's Ermione, R. Strauss's Arabella and Mozart'a Cosi fan tutte. The resident orchestra, the London Philharmonic plays for ell performances except Theodora, for which the Orchestra of the Age of

■ LONDON

AUCTION Christie's South Kensington Tel: 44-171-5817611 Wildlife Art: tha third sale entirely devoted to Wildlife Art comprises 300 lots. Highlights include e picture

Enlightenment returns; to Aug 25

by Wilhelm Kuhnert (1865-1928) of "A Lion Resting On a Rocky Outcrop" and a selection of works by Zimbabwean artist Grant Kennedy; 10.30am; May 31 EXHIBITION Design Museum

Tel: 44-171-3786055 100 Masterpieces. Furniture that made the 20th century: highlights Include the zig-zag chair by Gentt T. Riatveld, E1027 by Eileen Gray, the Louis 20 chair by Philippe Stark, B3 (Wassily) by Marcel Breuer and the Wall Tempered Chair by Ron Arad;

to Oct 6

National Portrait Gallery Tel: 44-171-3060055 The Room in View: the importance of the background and its contribution to the image of the sitter. The paintings, drawings and photographs span three centuries and are organised in four sections: artists et work, scientists at work, other people at work, and people at

rest, to Jun 2 THEATRE Olivier Theatre Tel: 44-171-9282252 The Prince's Play: Victor Hugo's Le Roi S'Amuse in a new translation by Tony Harrison, Directed by Richard Eyre and performed by The Royal National Theatre. The cast Includes Michael Bryant, Ken Scott and June Watson; 7.15pm; May 30, 31; Jun 1 (also 2pm)

MADRID

EXHIBITION Fundación Cultural Mapfre Vida Tel: 34-1-5811628 Postrimerias. Alegorias de la muerte en el arta español contemporáneo: death as a theme in the work of Spanish contemporary

artists, including Picasso, Dali, Solana, Saura and Tapies; to Jun 30

MUNICH **OPERA** Nationaltheate

Tal: 49-89-21851920 Tosca: by Puccini. Conducted by Marcello Viotti and performed by the Bayerische Staatsoper, 7pm; May 31

■ NICE **OPERA**

Opéra de Nice Tel: 33-92 17 40 00 Turandot: by Puccini. Conducted by Klaus Weise and performed by the Opera de Nice; 8pm; May 31; Jun 2 (2.30pm)

PARIS CONCERT Théâtre National de 140péra -

Opéra Gamier Tel: 33-1 42 66 50 22 Orchestre de l'Opéra National de Parls: with conductor Gary Bertini perform works by Berlioz, Ravel and Debussy: 8pm: May 31

Musée d40rsay Tel: 33-1 40 49 48 14 Au Moyen Orient: photographies d'Henry Sauvaire (1831-1896): 40 photographs taken in the 1860s in the Middle East by the amateur

PRAGUE

photographer; to Jun 23

CONCERT Rudolfirum Tel: 42-2-530293 BBC Symphony Orchestra: with conductor Andrew Davis and

percussionist Evelyn Glennie perform

works by Bax, MacMillan and Brahms. Part of the Prague Spring Festival; 8pm; Jun 1

VIENNA CONCERT

Musikverein Tel: 43-1-5058681 Wiener Akademie: with conductor Martin Haselböck and pianist Melvyn Tan perform Mozart'a overture to Le Nozze di Figarn, Piano Concerto in C major, KV503, and Symphony In G minor, KV550; 7.30pm; May 31 OPERA

Wiener Staatsoper Tel: 43-1-514442960 Madama Butterfly: by Puccini. Conducted by Michael Halász and

performed by the Wiener Staatsoper;

■ WASHINGTON

Lisner Auditorium Tel: 1-202-994-6800 Polluto: by Donizetti, Conducted Micaele Sparacino and performed by the Opera Camerata nf Washington: 8pm: Jun 1

ZURICH

7.30pm; May 31

OPERA

OPERA Opernha Tel: 41-1-266 6666 La Bohème: by Puccini.
Conducted by Nello Santi and performed by the Oper Zürich; 7.30pm; May 31; Jun 2 (8pm)

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Financial Times Business Tonight

Patti Waldmeir on Wolfensohn's first year at the World Bank

quality about James of the World Bank For better or worse, it is the quality that defines his leader-

Passion, compassion and charm are among his greatest weapons, and he has used them skilfully in the first year of his presidency, which began on June 1 last year. He has chosen his hattles carefully and well, and won more than a few of them. But to judge from the pace so far, it is going to be a long campaign. And even as the first year's milestone approaches, the destination remains disturbingly unclear.

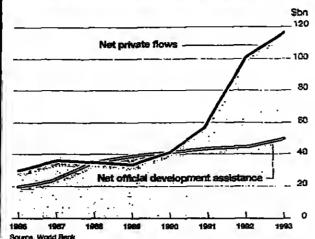
The mission is obvious: Mr Wolfensohn must remake the World Bank in line with the prevailing orthodoxy of private sector led develop save it from obscurity in the new millennium

The figures tell a story of declining World Bank influence: since 1990, private sector capital flows to the developing world have quadrupled, while official development assistance has stagnated; with \$170bn in private capital making its way to the developing world, the bank's \$5bn in concessional loans to the poorest countries pales by comparison.

But mere numbers cannot capture the depth of the bank's crisis of confidence, nor reflect the revolution in institutional psychology wrought since Mr Wolfensohn's arrival. Bank staff had grown used to vilification; for years the institution was condemned as bloated, hureaucratic, remote and dictatorial. Mr Wolfensohn vowed to deal with each of these criticisms in turn, and within a matter of months he had succeeded, not in changing the fundamentals but in altering the rhetoric of public discourse about the bank. He gave it an image transplant - and for that be earned the devotion of most of the 10,000 staff.

Reflecting on the first year of his five year term, Mr Wolfensohn gives himself high marks for external relations, and so does almost everyone else. The new president, a blunt-spoken former merchant banker born in Australia but naturalised





The surge in private capital flows

American, spent 100 of his first 300 days "in the field". It was there that he discovered the central reality of the developing world: a burden of poverty that the private sector alone cannot shift.

He called on prime ministers and supped with third world rovalty, relentlessly worked his network of contacts among first world leaders, and even threw a hirthday party for US President Bill Clinton at his home in the luxury resort of Jackson Hole, Wyoming, For the first time since the legendary Rohert McNamara, who headed the institution from 1968 to 1981, the hank had a president who was friendly enough with "Helmut" and Jacquea" and "Bill" to use first names. Mr Wolfensohn put the bank back on the map, He listened not only to cli-ents and shareholder governments, hut to non-governmental pressure groups which were always the bank's sternest critics. But he also spent an unprecedented amount of time bonding with the bank's "clieots", holding bands with toothless old men and embracing African finance ministers, unasbamedly physical in the ways valued most on that continent. He wept, often and publicly, and talked about what

moved him; an African busi-

nesswoman who made char-

coal from green banana skins:

or the vision of destitute African children reciting lessons in their squalid schoolroom.

For as Jamea Wolfensohn says himself, he is "a very emotional man", And he takes the issue of development very personally. "You've got to have a passion for development, and I've got a passion which grows. It's like a new love. It's all 1 think about. I wake up in the morning thinking about it and I go to bed thinking about it." This is no mere joh for Jim Wolfensohn; it is a mission.

is energy, compassion, and intoler-ance of bureaucracy made rapid converts of much of the staff. After more than a decade of drift under three uninspiring presidents - Tom Clausen, Barber Conable, and Lew Preston there was a demand for change from within the bank. Mr Wolfensohn came to office and said all the right things; be would "break the armlock of bureaucracy" and dismantle the personal fieldoms run by some senior managers; be would shine a hright light into the murkiest recesses of a personnel system based largely on patronage; and he would instil a "results-based" culture where staff would be judged on whether projects worked, not by how much they lent.

yet. Loan approval procedures have been streamlined, to cut approval time in half. Power is being deceotralised: for the first time "country directors" will live in the client country. and draw on new "technical colleges" of experts back home. But much work remains to be done to reshape the collective mind of an organisation which remains cautious, slow, hierarchical and confused. That will demand clever management of a kind which Mr Wolfensohn who never ran an organisation larger than the boutique Wall Street investment bank which

bears his name - has yet to prove himself capable. Disarming as always, Mr Wolfensohn is the first to admit that he is disappointed with the pace of change. Twelve months of "change management" bas brought great upbeaval and uncertainty without making much

concrete difference. "If we've screwed up it has been in the implementation of the change strategy," Mr Wolfensohn said in an FT interview. "'Change management' has been overmanaged. We've spent too much time on it." That is a view which will delight much of the staff, which despite its strong enthusiasm for reform, is showing signs of "change fatigue". It is time now to stop talking and

That will be difficult for two reasons: ooe is the personality of Mr Wolfensohn himself. Former and present colleagues say he is defensive, thin-skinned he repeatedly asks "how did l do? how did I do?" after every hig public appearance. Mr Wolsohn says himself that he demands an explicit and total commitment from staff; where it is not forthcoming, he suspects a plot to undermine him.

Mr Wolfensohn's charm will probably ensure that he is forgiven such faults. But the second difficulty is his unwillingness to lead be setting a grand strategy. Bank staff have high expectations of their hoss, expectations matched or exceeded by the outside world: they will want to know, and soon, the answer to the higgest question of all. Where exactly is Mr Wolfensohn taking the bank? And what is its role in a world where many countries will no longer need its lending? If it is destined to be a niche player in a future of private sector-led development, what is its niche? What will it do in Africa, where its record is questionable but where it

cial support? The hank's staff, its share holders and clients need a clear and focused vision of its future. But Mr Wolfensohn has not only declined to provide one: he does not think the demand itself is valio. "I have no global strategy, there is no global strategy for development," he says. He says he will set strategy by country, reevaluating each bank project against each client's particular needs, rather than setting a few clear broad lines to take the bank into the millennium.

remains a vital source of finan-

"When neople say I don't have a strategy I'm quite defensive about it, I have 100 strategies!" he says, enumerating the range of development problems be intends to tackle. He manages to sound like a moral crusader when what the bank of the 21st century needs is a tough manager. Everyone wants Mr Wolfensohn to start making hard choices, and soon. Unless he does, he risks dissipating the eoergy unleashed by his arrival.

BOOK REVIEW · Leyla Boulton

OUR STOLEN FUTURE By Theo Colborn, John Peterson Myers and Dianne Dumanoski Little Brown and Company, 306pp, £18.99

Synthetic time-bomb's circumstantial evidence

The revelation this week that UK government scientists have found chemicals in

haby milk that can impair the fertility of laboratory animals focuses attention on the impact. of synthetic chemicals on

The offending substanres, phthalates used to soften plastics, have been found in virtually every hrand of haby for mula on the UK market. Produced from raw materials derived from oil and natural female sex bormone.

According to Our Stolen Future, synthetic chemicals such as phthalates turn up in all sorts of places, including plastic toys and pesticides as well as foodstuffs. More sensationally, it claims the commonest of such chemicals have gender-bending potential, damaging both male and female reproductive systems in the onger term.

Much of the evidence is cir-cumstantial. The hook cites studies showing a fall in the sperm count of younger men born since a post-war explosion in the use of such chemicals by industry. But h also suggests that these chemicals could prove to be responsible for a wide range of problems including hyperactive hebaviour in children and diminished IQ.

There is well-established proof of the damage some synthetic chemicals can cause to laboratory animals and wildlife. For example, dioxins are not just known carcinogens but are believed to reduce sperm counts, suppress the body's immune system and

cause brain dysfunction. Alligators born in a Florida lake affected by a spill of a pesticide called dicoiol in 1980 suffered reproductive disorders long after the water was cleaned up. And PCBs, used in products from paints to lubricants, disrupt the reproductive

continue to circulate in nature long after being banned in

many countries.
As Al Gore, the US vicepresident, says in the foreword. the book raises "compelling and urgent questions which must he addressed". He likens its potential effects to Silent Spring, Rachel Carson's seminal work which warned of the dangers of pesticides 30 years

Written by US scientlst Theo Colborn, together with John Peterson Myers, an environmentalist, and Dianne Dumanoski, a journalist, this book provides the first guide to the subject for the geoeral reader. It says there are at least 51 man-made chemicals known to have the potential to interfere with the hormones that drive reproductive and neurological development.

Unintentionally it also pro vides some grim comfort for parents alarmed by this week's revelations about baby formula. It points out that particularly high concentrations of synthetic chemicals such as PCBs and dioxins are found in breast-milk in Europe and the U.S. though there is no evidence of phthalates.

Scientists have known for 30 years that high levels of synthetic chemicals have been accumulating in body fat and breast milk through the food chain. More receotly, researchers have discovered that such chemicals can leach out of plastic contaioers into their contents. They can also cause damage in quantities as small as one part in 10,000 billion.

But despite these important findings, knowledge of the chemicals' overall effects on human bormones remains paltry. The book claims this is mainly because the lion's share of research money for investigating the effects of environmental contamination on human bealth still goes into cancer studies.

The book admits that even if more research were carried ideotify a definitive link hetween the chemicals and reproductive problems, partly because it would be necessar to know which chemicals had been present in the mothers of men with reduced sperm COUNTS

The authors argue persuasively however that at the very least the effects of chemicals on human hormones must hecome a research priority, More amhitiously, they recom mend a shifting of the burden of proof in deciding which chemicals are safe, requiring the chemical industry to establish their safety.

At present synthetic chemicals must be proved dangerous hefore anything is done about them. In the past, it often required visible hirth defects to establish such proof - as for example, with thalidomide.

But the discovery in the 1970s of infertility in the daughters of women given a synthetic oestrogen drug called DES to help their pregnancies indicated that chemicals could disrupt hormones without producing hirth defects. The authors say that each new compound should be tested exhaustively to demonstrate that its effect oo health and

the environment is trivial. The scare over baby milk illustrates once again the fact that environmental policymaking, at least in the initial stages of dealing with a problem, is driven more by panic than by rational debate or the exhortations of environmentalists. For this reason, public concern over phthalates in baby milk is more likely to prompt action on these chemicals than Our Stolen Future. But the book has an important role to play in setting the terms of the informed debate society must now hold on the use of these chemicals.

Our Stolen Future is nucilable from FT Bookshop by ringing FreeCall 0500 418 419 (UK) or

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·LETTERS TO THE EDITOR-

Number One Southwark Bridge, London SE1 9HL

We are keen in encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). e.mail: letters.editor@ft.com Translation may be available for letters written in the main international languages.

Time not yet right to instigate big trade round

Sir. In your May 28 editorial "WTO at sea" you describe the "disappointing results of negotiations over the past year" (financial services telecommunications and maritime transport) and conclude that progress in liberalisation can be made only through a "comprehensive trade round". I believe such a conclusion is unrealistic and

premature. Ever since it was clear that the General Agreement on Tariffs and Trade was going to be turned into a hroader, permanent World Trade Organisation, there has been an unofficial debate about whether the traditional, large Gatt-type negotiating rounds would have to be continued or whether there could be cootinuing negotiations.

Thus, the result so far has The three "failures" cited in

demonstrate that "trade-offs" are the key to further "global liberalisation". In fact, all three negotiations were left. over from the comprehensive. eight-year-long Uruguay Round. On financial services. the US made clear that existing non-discriminatory treatment would be continued and the negotiations among the others remain in place. On telecommunications, the negotiations were continued. not abandoned. Maritime transport is a sector in which the US, for political reasons and a shrinking fleet, has not heen able to participate in previous negotiations: the outcome should have been no surprise to anyone.

heen oegotiations extended in two new and very difficult sectors and one old sector

happening elsewhere on further liberalisation? Most recently, according to the FT, the US has put its remaining tariff negotiating authority on the table in the Asia Pacific Economic Co-operation forum. Duty reductions or elimination in this context can easily be multilateralised. In the transatiantic dialogue, much progress has been made toward an important goal of world traders - agreement on mutual recognition of testing and standards conformity. In this area, no Congressional authority is required for US participation. There are other fields, like government procurement and rules of origin, in which progress can be made without a

"comprehensive round" Rather than concluding now

 when the US is obviously not likely to be able to participate fully - that preparation of a new round should be launched. countries should turn their attention and efforts to areas in which progress can be made. As these discussions and negotiations proceed over the coming 18 months to two years, it will become clearer what can be done without a large trade round and which items can only be handled in the broader context.

At that point, a better judgment can be made about the need for a "comprehensive trade round".

Joseph A. Greenwald, former US ambassador to the European Communities and Assistant Secretary of State for Economic Affairs 1616 H St. NW. Washington, DC 20006, US

Shareholders furious about **National Power buy-back**

From Mr Christopher Daws. Sir, Lex ("National Power", May 18) is a quarter right about PowerGen's share huy-back. Some individual taxpayers, but not all, prefer a selective buy-back to a universal dividend on which they would pay higher-rate tax. However, others are non-taxpayers and are furious at being left out in the cold while institutions profit enormously from the buy-back It was effected at a price barely 1 per cent below the market price, leaving those lucky institutions with a clear profit, including their tax credit, of over 20 per cent on their holding within a day. Surely companies could buy their shares back at prices

prevailing market price? And if companies made the buy-back open to all shareholders (like rights issues), the price would be kept as low as possible to the benefit of the remaining

sharebolders. Small shareholders are fed-up with the preferential treatment of the hig institutions. The London Stock Exchange used to run a level playing field. If it is ahandoning its principles so casually, what hope for its

Christopher Daws, Sheepscombe House, Jacks Green, Stroud GL6 7RA, UK

Leave EU to those who want it

From Mr Hans Schloten. Sir, If John Major and the British government are so fed-up and disillusioned with Brussels and the EU, why don't they withdraw from the

Mr Friedrich Blase makes the case for withdrawal in his letter (May 24). Perhaps it is

ask the UK to leave so the Union can develop as the vast majority of its members wish.

Hans Schloten, Ryulaan 15. 2105 XH Heemstede,

Seoul should reverse bar on investment in N Korea

From Mr Aidan Foster Carter. Sir, As the author of two studies on Korean reunification for the Economist Intelligence Unit and of a monthly North Korea report published in Seoul. I welcome Martin Wolf's article "Korea's German lessons (May 28). With what an older era would have called the Korean question clearly coming to a bead, it is high time western public opinioo started paying more than fitful attention to the peninsula.

an impossible dream, is now a very possible nightmare - if it were to follow the German route. Paradoxically, the hest way to assist unificatioo in the long run is to prevent it in the sbort run. It is much better that North Korea should continue to exist as a state, but receiving aid and investment from South Korea for economic reform and recovery, than for it to collapse like East Germany - which would be chaotic as well as costly. A more perverse paradox.

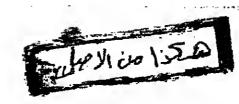
Korean reunification, long

however, is that the South Korean government, while professing hope for a "soft landing" in the north, is

currently acting in a way more likely to provoke collapse for worse). The chaebol (big industrial groups) are keen to put money into North Korea, but it is Seoul rather than Pyongyang that has been stopping them - just as it forbids its US and Japanese allies to offer more food aid. Yet at the same time, through the KEDO consortium, South Korea is giving the north \$4bn of new nuclear reactors. Where

is the consistency? Of course, North Korea is nasty and belligerent. But it will become more so, not less. If left to rot. It is not too late for Kim Young-sam, in the final two years of his presidential term, to lift up his eyes beyond domestic manoeuvring, and adopt a consistent, far-sighted and statesman-like policy of reaching out to the reform element in Pyongyang.

Aidan Foster-Carter. senior lecturer in sociology. University of Leeds director, Leeds University Korea project. 17 Birklands Road. Shipley, West Ynrkshire BD18 3BY, UK



EINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700 Thursday May 30 1996

India seeks a government

India's democracy is a wonder of the world. Notwithstanding its poverty, this vast country has managed to sustain vibrant elec-toral politics, the parliamentary elections earlier this month being no exception. But the country also needs a stable, reforming governmeot. If the fragmentation of its politics continues, India may even have to contemplate radical constitutional reform. After the collapse of the two-

THURSDAY WAY

id District Dumanod

week-old administration of Mr Atal Behari Vajpayee's Bharatiya Janata party (BJP), the president, Mr Shanker Dayal Sharma, has turned to the small parties on the left. But the chances that the United Froot, hesded by Mr H.D. Deve Gowda, chief minister of Karnataka. will provide stable covernment are not high, since it comprises 14 regionally based parties, some of which are in conflict with others over local issues. A United Front government will be dependent oo the support of Mr P.V. Naraslmha Rao's Congress party, with 136 seats, which may provide some stability. But Congress will also try to poach mem-

Equally destabilising could be the United Front's lack of a common approach to economic reform, although its dependence on Congress should prevent it from reversing what has been achieved. Since it contains a few enthusiastic reformers, such as Mr P. Chidambaram, the former commerce minister, the United Front government might even choose to pursue reform vigorously. But it is rather more likely not to attempt anything radically new.

Coalition of parties

Perhaps the greatest threat posed by such a government is to India's fragile fiscal stability. Since each regional party has a strong incentive to insist on the largest amount of spending and the least amount of taxation within its own area, a coalition of regional parties could bankrupt

What would happen if the United Front government failed? One possibility would be for Congress to seduce enough members to sustain itself in power. Another

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for the BJP to win the additional 34 percentage points of the popular vote needed to give it an outright majority. The BJP would then gain power outright on only

These possibilities raise two deeper concerns about Indian politics. The first is the peculiar outcomes that can result from first-past-the-post constituency elections in so fragmented a party structure. In the last election, for example Congress won only 136 seats, to the 194 of the BJP and its allies, even though it gained 28 per cent of the popular vote to the 20 per cent of the latter.

Electoral reform

The second concern is the grow ing dominance of politics by regional, caste and communal parties which base their support on what divides the citizens of this extraordinarily diverse country rather than on what they have in common. Taken much further this tendency might make stable

government quite impossible.

These are constitutional, rather than parrowly political worries. One possible cure might be elec toral reform, with a switch to proportional representation, with hurdles to eliminate small parties. Another would be the entrenchment of a more decentralised federal structure. The states would then be forced to take increasing responsibility for their fates and the central government would be restricted to providing the frame work within which they operate in addition to defence, foreign policy and a sound currency.

It may also be necessary to cre ate an all-India political institution to focus the country's sense of national identity and provide it with an executive less dependent on fragile parliamentary majori-ties. The ohvious solution would be an executive presidency.

The specific solutions are, a this stage, less important than identification of the problem. The question is how to make demo cratic politics produce effective It is beginning to look as though politics as usual are no longer able

Nuclear power going cheap

The forthcoming sale of British Energy, the nuclear utility, will be the British government's last major privatisation before the general election; it will also be one of its most difficult. Nuclear power is complicated and controversial: many people would rather it remained in state hands to ensure that it was managed for safety rather than profit. Last time the government tried to sell it - in 1990 - the City of London was scared off by the clean-up costs. Heoce, no doubt, the decision to promote it with television commercials showing athletes rather

But the case for selling off faclear power remains strong, and the government is right to persevere. As previous electricity privatisations have shown, the scope for improving efficiency in the generation of electricity is much larger than was supposed when the industry was stateowned. It can best be realised once companies are operating in the private sector. The nuclear industry's notoriously high costs and poor operating performance will be most effectively addressed if it is subjected to commercial disci-pline. Privatisation will also hring much-needed additional competi-

tion to power generation.
Opponents of the sale claim that British Energy'a liabilities are still unquantifiable and thet the company may even have a negative value. Although investors are right to be anxious about safety and the costs of cleaning up obso-lete nuclear plants, British Energy is being sold as a tightly regulated eotity with funds specifically ear-marked for its long-term liabili-ties. These are based on conservative estimates of the eventual cost of dismantling its stations. These worries should not, therefore, dominate the sale. In any case, only the modern, cleaner portion of the industry is to he sold, so the risks will be smaller.

Deregulation

Much the greatest uncertainty facing British Energy is, ironically, the prospect that competition in the newly deregulated UK power industry will drive electricity prices down to levels at which British Energy cannot compete. Since its plant must keep running really worth.

day and night (as "base load"), the nuclear industry cannot influence prices. This is because the whole sale electricity market has been structured so that prices are set by the fossil fuel stations, which snpply extra power at times of maximum demand

The outlook for electricity prices is therefore likely to be the largest single issue for investors. Yet the consensus within the industry is that prices will weaken over the next few years as efficiency continues to improve to meet the growth in competition. Even BZW. financial adviser to the govern ment on the issue, is predicting only flat electricity prices for the foreseeable future. So analysts have scaled down their valuations

Question of price

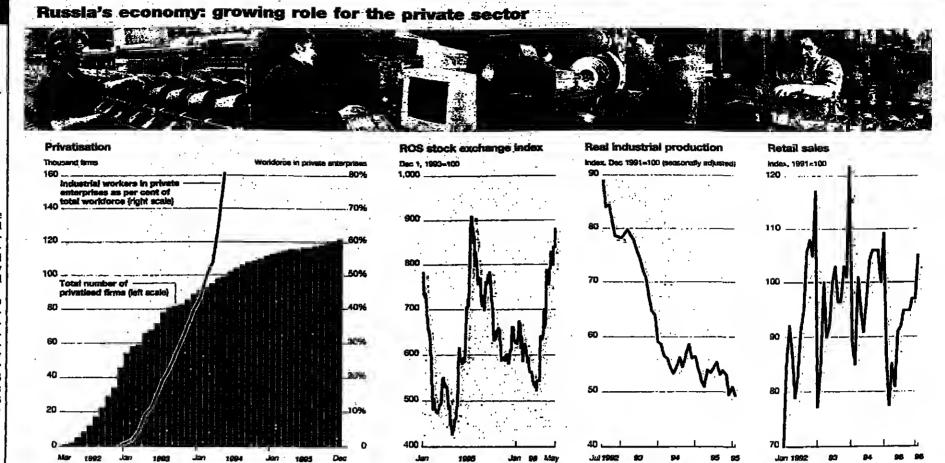
The largest and much the most difficult remaining question therefore, is how much British Energy should be sold for. The government has a duty to extract the largest possible price from the purchasers. But it is obvious that British Energy will have to be sold for far less than the cost of the

British Eoergy will he the world's first publicly quoted nuclear generator, so there are no obvious guides as to how markets will value it. More important though, than the value of British Energy's physical assets will be the amount of cash it can generate to pay dividends. Hence the fact made much of hy the Labour opposition - that the expected sale price of £2.5bn will not even cover the cost of British Energy's newest power station, Sizawell B. completed last year at a cost of

One obvious conclusion is thet on presant market valuations, Britain's ouclear industry appears to have been a very poor investment. It would be wrong, however to emphasise past mistakes so much that they depress the price

obtained by taxpayers. This is a necessary privatisa-tion. For too long, the nuclear industry has sheltered under government ownership and been allowed to squander public money on its inefficiencies. The sale will finally inform the taxpayer what this much-subsidised industry is

COMMENT & ANALYSIS



Russia's unfinished revolution

With communists waiting in the wings, the country's market reforms depend on next month's election result, says John Thornhill

usslan revolutionaries have always struggled to translate grand designs into reality in their vast and varied country. The Bolsheviks' calls to nationalise property and emancipate women in 1917 were misunderstood by the town council of Vladi-mir east of Moscow, which promptly nationalised all female virgins and declared them communal property.

Russia's modern revolutionaries the free-market economic reformers
- have successfully reinvented Russian capitalism since 1992, but they too have seen their visions of a new society distorted by the realities of post-Soviet life.

The attractions and blemishes of

their economic creation will play a decisive role in next month's presidential elections - which will in turn determine whether President Boris Yeltsin can press ahead with whether the country slips back towards its Communist past.
"The essence of the forthcoming

polls is that they provide a chance to vote for a smooth and civilised development of Russia," says Mr Yegor Gaidar, the former prime minister and chief architect of Russia's market reforms. "But this chance, as it so happens, critically depends on Yeltsin's victory."

At the outset, the principal goal of Russia's market reformers was to smash the legacy of 74 years of cen-tral planning and remove the state from the economy. According to one of the authors of Russia's privatisation programme, the reformers' aim was to eradicate socialism, "best defined as a system of extreme political control over economic activity".

In some respects, these goals have been accomplished with startling speed and success. In Soviet times, government expenditure was equivaleot to about 70 per cent of gross

domestic product. That ratio had halved by 1995 as the country's vast military-industrial complex crumpled. The government cooducted the higgest privatisation pro-gramme in history and abruptly axed cheap credits to state industry.

Russia now spends less on

defence as a proportion of GDP than neutral Sweden and boasts 40m shareholders - more than in the rest of Europe combined. But this deliberate reduction in the role of the state has been accompanied by a further, unintentional shrinkage of government economic activity. The inability of the state to collect taxes from evasive companies and individuals has tied its hands, resulting in the near-collapse of the welfare state and its much-publicised failures to pay federal employees and pensioners on time.

This contraction of the state has coincided with an explosion of private-sector activity. The liberalisa-tion of Russia's financial markets has enabled 2,500 commercial banks to emerge. The best have exhibited great entrepreneurial vigour, even if many of them are woefully under-About 900,000 small private busi-

nesses have also been created, with many more unregistered enterprises flourishing in the unofficial economy - estimated to be as much as 50 per cent of all economic activity. "Entrepreneurial firms are like the phoenixes rising from the ashes of the state sector," says Mr Tom Tirone, a US consultant who studied 100 private Russian firms. "They have a low and flexible cost structure, are generally run by exceptionally smart people, and have diversified into a range of activities, from manufacturing radioactive iso-topes to selling cans of tomatoes." Russia's amhitious mass privatisation programme, which tipped 14,000 state companies into the pri-

vate sector within 14 months, has

also proved an effective if brutal

many managers of the country's giant industrial enterprises. Some of these companies have transformed themselves into

western-style corporations which place shareholder value above government-determined production targets. The most conspicuous exam-ple is Lukoil, the giant Russian oil company, which has issued proxy shares in New York, implemented a restructuring plan inspired hy McKinsey, the US management consultancy, and set about developing joint oil projects with western companies in the Caspian Sea. Russia's infant equity market is

already heginning to reward success. At \$4.5bn, Lukoil's market value is almost five times that of Surgutneftegaz, another vast oil concern with comparable reserves bnt a hostile attitude to ontside investors. Lukoil has begun exploit-ing that advantage to raise cheap finance via international convertible bond offerings and is spending some of the proceeds diversifying into petrol retailing in St Peters hurg - which Surgutnefteeaz regards as its home market.

he transformation of the economy promoted hy Russla's economic reformers, however, remains only half-complete. The rapid attempt to stitch together the body of a capitalist economy has created some Frankenstein-like economic organisations, which still lurk in the shadows of the state economy and shun the competitive glare of the free market.

Companies such as Gazprom, the giant gas monopoly which accounts for about 8 per cent of Russia's GDP, have ostensibly been privatised hut in practice remain accountable neither to the state nor to shareholders. The company, which retains close links with Mr

lesson in market economics for Victor Chernomyrdin, the prime minister, appears to enjoy hig tax privileges hut discloses little information to private shareholders.

In many other areas of economic activity there is still more form than substance to Russia's market economy. Prices often reflect the restrictive powers of private mocop-olists - or criminals - rather than the forces of supply and demand. Moreover, while Russia may have

embraced tha concept of private property it has not yet entrenched effective legal means to protect it. A recent study for the Federal Securi-ties Commission, the industry regulator, concluded that in the vast majority of cases outside shareholders were unabla to force managers to restructure or invest in new pro-jects. Partly this is because outside shareholders are small and fragmented: only 17 per cent of companies surveyed were majority-owned by independent investors. Even the found it difficult to assert their rights in the face of obdurate manement and a weak legal regime.

Unfortunately, economic liberalism has not been accompanied by an equal sense of responsibility, says Mr Dmitry Vasiliev, the commission's chairman, who is striving to improve the accountability of company directors and foster good corporate governance.

But perhaps the greatest failing of Russian economic reform has been that the dividing line between the state and the private sector remains hlurred and that the process of de-politicising the economy appears to have stalled. Political influence can still count for more than market power or legal rights. For example, President Boris Yeltsin still publicly upbraids ministers for failing to transfer state credits to a combine harvester factory in Krasnoyarsk which he has personally

promised to support.
The most glaring example of Rus-

sia's hybrid form of capitalism is in Moscow itself: mayor Yuri Luzhkov's administration controls the land market and has a direct equity stake in 80 restaurant chains, property developments and hotels.

This close connection between local government and husiness ensures that deals get done. But private traders allege the administration conspires to maintain food prices artificially high in Moscow's markets by turning back indepeo-

dent traders on the city's ring road. Arguably, a second Yeltsin administration might complete the process of de-politicising the economy by pursuing tax reform, developing effective systems of corporate governance, expanding capital markets and cracking down on crime and corruption. The International Monetary Fund's recent \$10.1hn three-year loan to Russia is in part tied to a transformation of the economy along such lines; the IMF hopes the reforms will enhance the credibility of capitalism in the eyes of Russia's weary electorate and help spark an investment boom.

But the question that most con-cerns Russia's capitalists is whal will happen if the Communists win next month's presidential election. This week, the Communist party launched its economic programme. Although much of it remains confused, it promises greater state support for domestic manufacturers. By means of higher tariffs on imported goods, state subsidies, and fixed energy prices, the Communists hope to stimulate domestic

industrial output.
At the very least, this means that ministerial contacts in Moscow are likely to be more important to the success of an enterprise than the competitiveness of the goods it produces. But if pursued to an extreme. the programme could reignite inflatioo and undermine the economic reforms pursued for the past four

OBSERVER

Not so felix culpa

■ Dacia Felix hasn't proved to be a very lucky name for Romania's largest private bank, staggering on thanks solely to gigantic loans equivalent to around 2 per cent of last year's GDP - from the central

including members of a anti-Hungarian nationalist organisation, set up the bank in the ethnically-mixed Transylvanian town of Cluj in 1991, they named it Dacia Falix. The appellation the Romans

When local entrepreneurs,

conferred on Romania was deemed auspicious for an organisation signed to help the country pull through its post-communist economic crisis. It invested heavily in local businesses, sponsored the national football team in the 1994 World

Cup, as well as the annual

Romanian tennis open, and opened offices in Dijon, Caracas and Sadly, the game would seem to be up with the grand patriotism, now it has fallen out with its main shareholder Sever Muresan, the one-time tennis star on hobnobbing terms with George Bush. Muresan is alleged to owe Dacia Felix a cool

\$300m plus. Only the new management, installed in March in the splendid headquarters in Cluj, seem to be

preserving a strange degree of optimism. Indeed, they still seem to think the missing millions will reappear any day.

They may be closing the Caracas and Dijon offices, but Athens and the 51 local outlets live on - and staff cuts have not been exactly

Then again, the optimism has its limits - management is also back at the central bank with the begging bowl in hand. Just in case, you understand.

Not tailor-made

■ Spare a thought for Anton Schneider, chief executive of Klöckner-Hymboldt-Deutz, the German engine-maker which looks as if it may go belly up after alleged fraud by a number of leading executives has led to losses

Since leaving the Boston Consulting Group in 1989, not a lot has been going right for 44-year-old Schneider. He managed, initially at least, to restructure Dorries Scharmann,

the engineering company belonging to the ill-fated Rremer Vulkan group which last month said it was bankrupt. But, sensing perhaps that something was amiss at Bremer

Vulkan, where Friedrich Hennemann, the former boss, was empire-building, Schneider upped sticks and moved to KHD. One year exactly after Schneider arrived in Cologne, it now emerges that KHD executives had, since 1993, been taking on plant orders way below cost . funnily enough exactly the same thing that the Bremer Vulkan executives had

What all this says about German auditors, who appear to have slept soundly through extensive account manipulation at both companies,

Future imperfect

■ The process of picking the next chairman of the Commodity **Futures Trading Commission** seems to have been hijacked by some election year horse-trading not wholly relevant to the business of futures regulation.

Senator Lauch Faircloth: a conservative Republican from North Carolina, has promised to block the appointment of Washington lawyer Brooksley Born to the chair of the CFTC. Her transgression? She is portrayed -hy Faircloth - as a Friend of

Faircloth has borned in on the notion that Born might be asked to stand judgment over the propriety of the Clinton spouse's famous cattle futures trades, in the course of which, in the early 1970s, she transformed a \$1,000 trading stake

into a \$100,000 profit.

That piece of high finance was scrutinised in detail more than a year ago by people definitely not

friends of Hillary. But Faircloth would like yet another investigation, timed ahead of the November elections, and would like Ms Born's nomination held until then.
This in turn has upset Senator

Boh Dole, who wants his aide, David Spears, confirmed as a CFTC commissioner, and who had promised to speed Born's nomination through Congress before he leaves to husy himself with his presidential campaign

Born herself is keeping a low profile for now, though she did tell a confirmation hearing that she has just a passing, and purely professional, acquaintance with Mrs Clinton.

Follow my leader ■ The conviction among Russia's Communists that President Boris Yeltsin will falsify the results of the June 16 presidential poll is good for the local stock of black political humour.

The latest suggestion is that on June 17, Yeltsin phones the head of the Central Electoral Commission and asks for the results. "Gennady Zyuganov [the Communist party leader] won 55 per cent of the vote," the official

An ominous silence follows. But don't worry, Boris Nikolalyevich, you won 60 per

Financial Times

100 years ago Cyclone at St. Louis

One of the minor effects of the tremendous cyclone at St. Louis was to damage the St. Louis Breweries to the tune of £8,200. The cable conveying the information adds plaintively: "We are not insured against cyclones." The shareholders may indeed congratulate themselves on having escaped cheaply from so great a risk, especially as the manager adds, with characteristic American energy, "The effect will not be of a serious character, our husine going on as usual." Evidently it takes much more than a cyclone to stop the husiness of an American brewery.

50 years ago U.S. Coal Strike Over

Washington: The U.S. soft coal strike has been settled, it was announced officially here. The U.S. House of Representatives, by 230 votes to 106, passed a sweeping permanent measure to curb industrial strikes and other trade union activities. The measure has been sent to President Truman. While the House was endorsing the measure, the Senate prepared for a quick vote oo the President's striker-draft proposal under which the President could call un into the armed Services men who refused to work in industries taken over by the



FINANCIAL TIMES

Thursday May 30 1996



Cabinet adopts bill paving way for privatisation | Banco do

Strike threat over France Télécom sell-off plan

By David Owen in Paris

The French cahinet yesterday adopted a hill to convert France Telecom into a joint stock com-pany, paving the way for the sale early next year of some shares in the state-controlled operator. but also raising the possibility of fresh strikes by its largest union

Mr François Fillon, telecommunications minister, said the hill would go to the country's parliament "in the next few days" and that the group, valued at between FFr130ho and FFr200bn (\$39hn), would be incorporated on Janu-

Yesterday's announcement followed an agreement with three of France Telecom's six unions over a restructuring that could allow the organisation to shed more than 15 per cent of its 150,000 staff in the next 10 years.

But the group's largest union reacted with hostility, saying it was against incorporation and that it had called a strike for

GM to open

vehicle base

in Thailand

executive added. But a combina-

tion of factors, specific to the car

industry, apparently led GM back

to Thailand. Without getting into

a public hidding war, Thailand agreed to waive its domestic con-tent requirements for the entire

industry - a concession GM felt

it needed to get its new plant into

production quickly.

The presence of other car mak-

ers in Thalland also gave GM the confidence that the country's shortage of skilled labour and

infrastructure deficiencies would

GM officials said if sales in

Asia increased according to their

projections, extra capacity would be needed and the Philippines

would be considered as a base.

KHD faces

fraud probe

limit the damage. Mr Schneider

is not being investigated.

KHD said Mr Paul Hochscherf,

the KHD board member responsihle for the KHD Humboldt Wedag

plant business, had been relieved

of his responsibilities, as had two

members of the KHD Humboldt Wedag board, Mr Hans Jürgen Gärtner and Mr Lutz Harmann.

The three men, who were unavailable for comment yester-

day, are all being investigated.

The other 12 people under inves-

tigation are executives at KHD and suppliers to the company.

Continued from Page 1

be overcome in the long term.

Continued from Page 1

June 4. One official said the union would try to make this June like December 1995, when the country was seriously disrupted by a wave of public sector

An earlier anti-privatisation strike in April was given only a muted response by union members, however, with less than half the public utility's workforce taking part. This compared with the 65 to 75 per cent who took part in protests against a change in France Telecom's status between 1993 and 1995.

Most unions appear to have accepted government assurances that the company will continue to give its employees civil servant status until 2002, with accompanying joh security

Yesterday's announcement was hailed by Mr Jacques Chirac, the French president, as "an exceptional achievement" and a necessary one to cope with the next century. The increasingly strong competition in the industry will

By John Kampfner and John

Northern Ireland's main political

parties expressed fears last night that Sinn Fein, the political wing

of the Irish Republican Army,

could emerge one of the benefi-

ciaries from today's elections

that will pave the way for all-

party talks on the province's

future. As the low-key campaign drew

to a close, Sinn Fein activists pre-

dicted that a low overall turnout

in the 18 constituencies could

Such an outcome might then be portrayed by republicans as vindicating the IRA's refusal to

Northern Ireland's 1.1m voters

have an unprecedented choice of

23 parties and fringe groups who

are competing for 110 seats in a

new forum.
While having little power itself.

the forum would send delegates

to the negotiations, which begin

With mnch of the electorate

sceptical about the purpose of the

forum, and bewildered hy an untried hybrid voting system, UK

officials are concerned that turn-

out could fall below the 49 per

cent registered in the last poll, for the 1994 elections to the Euro-

Mr David Trimble, the leader

of the Ulster Unionists, who lohb-

ied hard in London for an elec-

tion, denied suggestions that his party's share could fall below

that of the more hardline Demo-

boost their share of the vote.

restore its ceasefire.

on June 10.

pean parliament.

as losses

By Jonathan Wheatley

gues, the French construction

group, enters France's fast-grow-ing mobile phone market.

Initially, the service will only

be offered in the Paris region, but

the company aims to cover 90 per cent of the French population by the end of 1998. A hill to open the

French telecoms market com-

pletely in 1998 is before parlia-

The government has promised

to retain a 51 per cent stake in

France Telecom, with a maxi-

mum of a further 10 per cent reserved for employees. Because

of the size of the organisation,

which was the fourth largest tele-

coms operator in the world in terms of 1994 turnover, the remaining 39 per cent is likely to be sold in at least two tranches.

The accord agreed with the

unions envisages that between 20,000 and 25,000 France Tele-

coms employees would take early

retirement in the next 10 years,

in addition to the 35,000 that are

cratic Unionists led by the Rev

Mr Paisley inflamed the cam-

paign by accusing the UUP of

being prepared to renegotiate Northern Ireland's relationship

Mr Trimble appealed to voters

"to ignore the smaller parties

which can only weaken unionism

conference table with a weak-

Mr Gerry Adams, Sinn Féin president, wound up an exhaus-

tive programme at the hustings hy warning Mr John Major, the UK prime minister, that his party would use its electoral mandate

to turn up at the start of the

talks - irrespective of an IRA

Both London and Duhlin have

insisted that the restoration of a

ceasefire is a prerequisite for Sinn Fein's participation.

Mr Adams declined to specu-

late on the possibility of a

renewed ceasefire. But he said

many voters would look "with

disbelief' at the inability of the

British and Irish governments to

agree on an agenda for talks on

said. "I can't see how a British government which has estab-lished an election to provide a

route into talks can now ignore

'We'll be there," Mr Adams

the eve of the elections.

vote for our party.

He added: "Don't send us to the

as a whole,

ened mandate."

with the UK during the talks.

Sinn Féin may gain

from low turnout in

N Ireland elections

(US\$8.03bn) new share issue has flopped, forcing the Brazilian government to pick np about three-quarters of the shares and

thereby consolidate its control.

The offer was part of a restructuring and recapitalisation programme to overhaul Brapolicy than as a business.

shares tumbling.

Apart from B\$1.1hn bought hy the hank's pension fund and R\$500m by the National Develop-ment Bank, preliminary figures showed that only about R\$22m of shares had been sold when the offer closed on May 20, the bank

As a result of the flop, the gov-ernment's voting stake rose from

Analysts were less certain that Banco do Brasil's problems could he solved so quickly, hot accepted that a break had been made. "In contrast to its previous management, the hank's directors are trying to give a true and fair picture of the bank's position," said Mr Arthur Franco Bueno, an analyst at consultants Lafis in Sao Paulo.

1994. Many turned their attention to lending but suffered high make imprudent loans, particu-

a loss of inflationary profits

larly to farmers, and declared a provision for non-performing loans of R\$3.8hn earlier this Analysts are encouraged that

the bank is writing off bad loans, in line with good accounting practice rather than the looser practices demanded by Brazilian

Brasil issue flops continue

in Sao Paulo

Banco do Brasil's R\$8hn

zil's largest bank after several years during which it was run more as an instrument of poblic But the hank's losses of

R\$4.2bn in 1995 and R\$1.6bn in the first quarter of this year kept investors away and sent its

said yesterday.
The issue was priced at R\$12.85 and R\$13.51 for each lot of 1,000 ordinary and preferential shares respectively. When it opened to the public on May 8 the shares were trading at about R\$9.60 and R\$9.80 respectively. By yesterday, they had fallen to about R\$9.30 and R\$8.80.

51 per cent to 73 per cent.

"Investors who chose not to hny will regret it." said Mr Carlos Gilberto Caetano, the hank's finance director. "By June we will be back in the hlack."

Banco do Brasil appointed a new president and board of directors in February last year following a change of government. The number of directors has risen from six to seven, hnt the Treasury has kept the number of its appointees at four and can no longer direct strategy. Brazilian banks suffered from

when the government's economic reforms slashed inflation in July rates of non-payment. Banco do Brasil was forced to

the wishes of those people who Elections may fail to draw weary voters, Page 9

THE LEX COLUMN

10-year bonds yield relative to Ge

Politically incorrect

is a reversal of the dollar's strength

against the D-Mark, which has helped European high-yielders to gain ground

could also spark a change of fortune

market, now yielding 175 basis points

more than Germany. There are some

good reasons for this differential, such

as the UK's rising borrowing require-

ment. And unlike Italy and Spain, the

UK market does not offer a free option

on Emu. But a lot of political risk is

also priced in - even though a Labour

victory is unlikely to change economic

policy dramstically, and should

increase the chances of Emu entry. If

the US market recovers, gilts could

gain considerable ground from Ger-

Spain's new government is playing with fire. It rightly wants to press ahead aggressively with further privatisations. Yet it also seems dangerously keen to play politics with top appointments in Spain's semi-privatival tised companies. Already Argentaria has a new chairman, one of whose first acts has been to propose new restrictions oo shareholders' voting rights. And persistent rumhlings suggest other chairmen may be shifted too - simply because their faces do not fit politically.

Investors should resist this vociferously. Of course the government, as a hig shareholder, should have a voice in top appointments. But if it wants investors to believe its privatisation sales pitch, it must use its influence in a way which is seen to serve the interests of shareholders generally. If it forces through appointments which are nakedly political, it will pay a heavy price.

Take Repsol, in which the government retains only a 10 per cent stake. The evident shareholder focus of the company's chairman, Mr Oscar Fanjul, was a powerful reason behind investors' enthusiasm for the recent Repsol offering. Yet only a few months later, the government - in cahoots with a few big hanks - seems to be manoeuvring to remove him. This would he a serious error. Not only is Mr Fanjul's record impressive; even if he were replaced with someone convincing, removing him for the wrong reasons would still send a clear signal to international investors about the government's priorities. The damage to the rest of its privatisation pro-gramme would be profound.

Europe's government hond markets

are looking increasingly unworthy of

their name: Spanish and Italian 10-

year honds are currently yielding

around 9 per cent and 91's per cent respectively. The gap relative to German bond yields is close to the levels

seen at the height of the hull run of

1993, when European Monetary Union

(Emu) encompassing Spain and Italy,

was viewed as inevitable. Given the

amount of good news already priced into Italian bonds this time, the cur-

rent rally probably needs the help of

the rate cuts it has been discounting

before going further. And even though

there is plenty of genuinely good news
- inflation is falling and the political
situation is stabilising - at current
levels the market could be upset by

One potential trigger for a re-think

European bonds

Eurotunnel The so-called high-yielders among

Eurotunnel's decision to slash its summer fares is a hrave move at a time when it is locked in restructuring talks with its banks. If the Channel tunnel operator fails to make up for lower prices with extra passengers, revenues will suffer and it will have weakened its negotiating hand.

After a hungled launch, Eurotunnel has got its act together commercially. And having grabbed a 45 per cent market share in its first year of operation, it makes sense to keep up the pressure on the ferry companies. As it stands, Eurotunnel's list prices are now at or helow those of P&O and Stena although the ferries have been offering hig discounts - and it is adding other wrinkles such as a loyalty scheme for frequent travellers. Euro-tunnel claims that eight out of 10 people who try out its Le Shuttle service can be converted into regular users. If

that is true, getting new passengers in at almost any price appears worth-while. Eurotunnel's decision to crank up its duty free business at terminals also appears to be paying off. Sadly, this is all rather academic.

With over £8bn in borrowings. Euro-tunnel's future depends on agreeing a financial restructuring with its 225 inancial restructuring with its banks. The best guess is still that this will involve a debt-for-equity swap which will heavily dilute existing shareholders – so the one third jump in the shares over the past two months looks puzzling.

UK utilities

It is a truism that hostile hid battles are often great for the target and lousy for the victor. The struggle for Southern Water is becoming a case in point. The problem is straightforward: a compelling strategic argument can be made for either Scottish Power or against Germany. And the dollar could run out of steam soon. This Southern Electric to own Southern Water - but thanks to competition between them, either could find fa for the most recent recruit to the ranks of the high-yielders: the gilts cheaper alternative elsewhere. Worse, neither hidder yet shows signs of

Take yesterday's counter-bid from Southern Electric. Discounted cash flow valuations suggest it is overpaying unless it can extract handsome amounts of extra value from merging the two husinesses. Certainly there should be some, from selling power to Southern Water's customers and taking out duplicated costs. And though the geographical overlap is pretty marginal - covering only 25 per cent of Southern Electric's customers - it still ought to give Southern Electric a slight edge over Scottish Power. Rarely, however, can a company have been vaguer...about how these benefits will be put into practice.

But even though Southern Electric's counter-hid may he cohbled together, it still puts Scottish Power on the spot. The answer is clear: Scottish Power should back off in order to pursue one of the sector's pleotiful alternatives. Yet this is precisely the point at which big mistakes are often made, thanks to the temptation to press on and win. A higher bid could always be justified on the spurious grounds that it would enhance earnings. And the fact that Scottish Power picked up Manweh at a knock-down price may have given it false confidence in its ability to avoid

overpaying.
If Scottish Power presses on this will be a game in which the real win-ner is the company that blinks first.

> Additional Lex comment on Carlton, Page 20

Europe today

and gusty winds. Southern England will stay dry and warm with sunny spells. A southerly flow will draw warm and dry air from the Iberian peninsula across France and into the Benelux. Most places will have plenty of sun but thunder showers may develop in Portugal. High pressure will promots sunny conditions on the Islands in the western Mediterranean and from Italy towards southern Germany. A front with associa cloud and patches of drizzle will linger from northern Germany across Poland to parts of Russia. The northern Balkans will be dry and sunny but there will be thunder showers of Turkey.

Ireland and Scotland will have cloud, rain

Five-day forecast

Eastern Europe will be sunny and dry from the Ukraine towards Greece and Turkey owing to an eastward moving high pressure system. A front will move into western Europe causing increasing cloud with a few thunder showers and temperatures below seasonal levels. During the weekend, showers will develop in France, Germany

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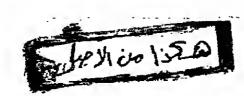
Thanks to UBS' efforts in raising the profile of Croaoa as an investment opportunity the offer raised US\$160m from the sale of 35 per cent of the company's shares.

For Pliva, the flotation has provided access to the international capital markets. For the Croatian government, the London Stock Exchange listing will help encourage further investment in its privatisation programme.

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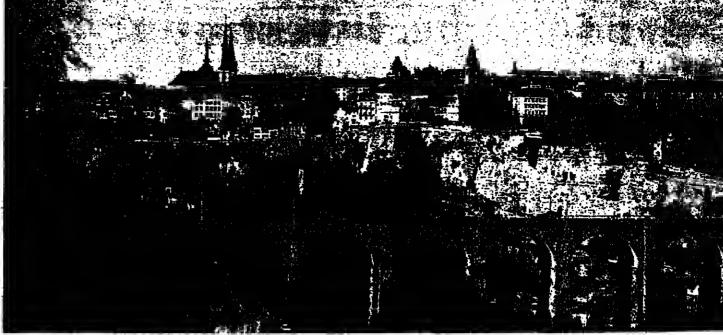
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FINANCIAL TIMES SURVEY





Luxembourg was the only EU state to avoid a recession in the early 1990s, and it is still forecasting growth in excess of 2.5 per cent this year

LUXEMBOURG

Leading role at the centre of the EU

currently to meet the so-called

"convergence criteria" for

monetary union - and comfort-

ably - will strengthen its nego-

tiating position in the continu-

of the EU. And, of course, Mr

Jacques Santer, the European

Commission president, is the

latest in a line of Luxembour-

gers who have played a leading

Gross national product per

head is second only to Switzerland. Although economic

Luxembourg is also wealthy.

role in developing the EU.

Intergovernmental

The Grand Duchy will need to display all its diplomatic, entrepreneurial and economic management skills as it approaches the new millennium, with a number of challenges looming both within and beyond its wooded frontiers, writes Neil Buckley

ing

mbedded in the heart of Europe, at the junction of French and German culture. Luxembourg remains a model for small countries everywhere - and even gives its much bigger neighbours cause for envy.

Despite having a population of only 400,000, its status as a founder of what is now the European Union puts it not just geographically but also politically at the centre of the EU, and enables it to exert an influence out of all proportion

Being the only EU member growth did slow, Luxembourg

was the only EU state to avoid a recession in the early 1990s, and it is still forecasting growth in excess of 2.5 per cent this year, despite slowdowns in neighbouring Belgium, France and Germany.

Inflation, which jumped to 3.6 per cent during the recession in 1993, stood at 1.5 per cent last month. Unemployment, at 3.3 per cent, is the lowest in the EU.

The raw figures can mislead - as Luxembourgers point out, on a regional rather than national basis, several regions in Europe have higher GNP per head than the Grand Duchy. More impressive perhaps, and the source of larger states' envy, is the way Luxembourg has managed the transition from industrial to post-industrial economy; from a nation whose wealth was based on iron and steel, to a leading financial centre, and more recently, a fast-growing centre

of the multimedia industry that likes to call itself Media-

port Europe. The Grand Duchy has gained a reputation for spotting niches that play to its geographical, cultural and political strengths, and exploiting

But It will need to continue to display all its diplomatic, entrepreneurial and economic management skills as it approaches the new millennium, with a number of challeoges looming both within and beyond its wooded fron-

On the broader European stage, EU enlargement to the east and south could expand the union to as many as 27 members, several of them very small. The need to avoid decision-making paralysis, and smaller countries holding the rest to ransom, will hring pressure to limit their influence.

Mr Jean-Claude Juncker, 41, Luxembourg's young Christian Democrat prime minister. although renowned for his intellect and energy and a protege of Mr Helmut Kohl, the German chancellor, faces a battle to preserve Luxembourg's clout. He says he is prepared to accept removal of EU members' right of veto in the Council of Ministers - except in fiscal matters, seen as crucially important to Luxembourg, But he will not sacrifice every member's right to appoint a

European Commissioner.

Mr Juncker welcomes another likely development on the European stage - monetary union and the arrival of the Euro. As he told Luxembourgers in his annual state-of-the nation address this month:

"There is no alternative to the Euro, which is vitally important for our country. It will be pot in place according to the established timetable. Even today, tangible progress has been made in the convergence plan drawn up in the Maastricht treaty."

ha prime minister's confidence that monetary union will happen on time is reflected across the Grand Duchy, As one official puts it:

"We think in terms of certainty; we don't question it. We are already dealing with the problems that might arise, not whether it will happen or not."

The Euro will create both opportunitles and problems. Luxembourg's banking sector, which accounts for 15 per cent of gross domestic product and, through corporate taxes and employees' income taxes about one-third of total government revenues, estimates the cost of its introduction alone at LFr8hn - equivalent to 4 per cent of last year's total bank revenues of LFr191hn. Banks will lose commission

on European currency dealing

and, more importantly, on issuance of Luxembourg Franc-denominated Enrobonds, while the Euromarkets in national European currencies - of which Luxembourg has a 12 per ceot market share - will

disappear. Mr Lucien Thiel, general manager of the Luxembourg Bankers' Association, believes Luxembourg can take up the slack with new Euro-dominated activities, as well as the continued growth of the Duchy's fund management and insurance sectors.

"If the UK stays outside the single currency, London will be the centre for the non-Euro zone. But there will need to be an international centre on the other side of the barrier, in the Euro zone," he says, "Luxembourg is historically a more international centre than Paris or Frankfurt. This could be an

opportunity for us." Potentially a higger threat than the single currency Itself is the possibility that it could bring with it demands for standardised EU withholding tax or minimum reserve requirements - the absence of which is one of Luxembourg's attractions - or for removal of bank secrecy. The financial community hopes and believes the

chances of these are remote. Banking confidentiality, It says, is embedded in the culture of several other member

states such as Austria, and the

EU would not want to see an outflow of private investors' funds into Switzerland, Meanwhile, Luxembourg's insistence on retaining the national veto in EU economic decisionmaking reflects determination to defend its other competitive

That determination was also evldent in Mr Juncker's announcement this month of a LFr4bn package of cuts in corporate taxation. This was not, he insisted, a "gift" to the financial community, which had pressed for such a move, But it will holster Luxembourg's sector against competi-

tion from emerging financial centres such as Dublin. The hope is that It will also promote job-creation elsewhere, with unemployment, though low by International standards, standing at a postwar high, and traces of long-term unemployment emerging for the first time.

As Arbed, Luxembourg's famous steel company, shifts Its focus ahroad, and ateel industry jobs continue to contract from 30,000 in the 1970s to a projected 4,000 by early next century, one domestic industry the government is vocally encouraging is media.

Luxembourg's 60-year-old Compagnie Luxembourgeoise de Telédiffusion, Europe's oldthe digital broadcasting explosion through the planned merger of its TV interests with those of Germany's Bertelsmann, and a three-way alliance with France's Canal Plus and Mr Rupert Murdoch's BSkyB.

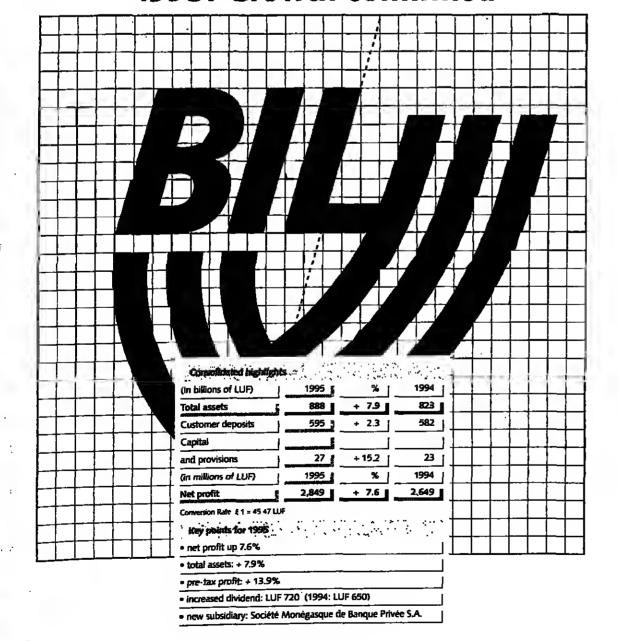
Thursday May 30 1996

More recent ventures, such as Société Européenne des Satellites, operator of the Astra aatellite system, and Europe Online, the fledgling Internet service provider, constitute the second and third pillars of Luxembourg's media empire.

As well as maintaining competitiveness and encouraging employment, another domestic issne the government is focusing on is pension reform - attempting to reduce the likely pressure of the pensions explosico lt, like many European states, faces in 20 years' time. After the first-ever one-day strike hy 20,000 government employees last year, delicate negotiations are under way with the unions on harmonising currently over-generous public sector pension arrangemeots with those in the private sector. If the government succeeds here, observers suggest the thorny area of social security reform may be next on the

But, as one finance official puts it: "We are locky we have comparatively few short-term to tackle the longer-term est commercial broadcaster, is ones." How many other EU well-placed to participate in states might wish they could

Banque Internationale à Luxembourg 1995: Growth confirmed



A LUXEMBOURG

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Drive for jobs, investment

Handling the shift from an industrial to service-based economy will continue to be one of Luxembourg's biggest challenges

Luxembourg's dynamic little economy was one of the few to avoid recession during the Europe-wide downturn of the early 1990s. But even it is not immune to some of the longerterm pressures in continental Europe - and the government this month announced a LFr4bn-plus package of corporate tax cuts aimed at encouraging investment and creating

While the economy is in good health. Luxembourg is again feeling the impact of economic slowdowns among trading partners such as France and Germany.

Statec, the national statistical service, says that growth in the gross domestic product slowed from 4 per cent in 1994 to 3.7 per cent last year, according to Luxembourg's own and European standard SEC measures - although that was still well above the 2.7 per cent European Union average. Statec bas downgraded its growth forecast for this year from an original 3.5 per cent to 2.8 per cent - although some government officials believe

below 2.5 per cent. The biggest downward revision is for the industrial sector, expected to be hit by falling exports, with growth forecasts cut from 3.2 per cent to 1.1 per cent, including zero growth in the iron and steel industry. and only 1.5 per cent in other industries. No downward revision has been made to the forecast for Luxembourg's service industries, expected to continue their "anti-cyclical"

the eventual figure may be

As Statec emphasises; "The 'centre of growth' since the 1970s has moved from industry (especially the steel industry), towards the financial sector. That pole is now shifting again, towards other market services.

Inflation, which hit 3.6 per cent in 1993, fell back to 1.9 per cent for 1995 as a whole, and the year-on-year figure this February to 1.0 per cent - the second-lowest in the EU after Finland. The figure slipped back to 1.5 per cent in April. due largely to price increases in petroleum products.

But with 60 per cent of Statec's basket of goods originatoutside Luxembourg, and the Duchy's four main trading partners continuing to enjoy low inflation. Luxemhourg's



KEY FACTS

CurrencyLuxembourg Franc (LFr) at par with Belgian Franc Average exchange rate 1995 \$1=LFr29.48; 20/5/96 \$1=LFr31.53

rate ia forecast to remain below 2 per cent.

The outlook is less encourage ing for unemployment, which for many years was virtually zero. Unemployment increased from 2.7 per cent in 1994 to a post-war high of 3 per cent in 1995 - or 5.100 out of an active population of 171,500. In March this year, it reached 5,662, or per cent. Economists helieve structural factors are at work and foresee no return to the days of full employment. Contraction of the steel industry (from 30,000 employees in the 1970s to 6,000 last year) has reduced an important source of unskilled jobs, while low-grade clerical work is

ECONOMY

Total GDP (\$bn)

Exports.

Imports_

(% of GDP)**.

Exports (Sbn).

Imports (\$bn).

France.

Netherlands

Trade balance (\$bn).

GDP per capita (\$).

Real GDP growth (%)....

Total Investment

Components of GDP (1994, %):

Government Consumption.

Consumer prices (% change pa).

Unemployment (% of lab force)...

Current account balance (\$bn)...

Main trading partners (1994, %):

Notes: * = EIU estimates. **= Maastricht definition. All trade

figures refer to Belgium-Luxembourg Economic Union (BLEU).

Sources: Economist Intelligence Unit, Datastream, IMF

Ind. production (% change pa).

Reserves minus gold (\$bn)...

Gen. govt. budget balance:

Private Consumption.

increasingly performed by computers.
"We must recognise that

some of those unemployed now will never find a job," says one government official

Handling the shift from an industrial to service-based economy will continue to be one of Luxembourg's higgest challenges. It recognises that maintaining the attractiveness and competitiveness of its financial sector - accounting for almost one-sixth of GDP is crucial.

The arrival of the Euro in 1999 will hit the banking sector, reducing profits from foreign exchange dealing and Euromarket activities. But pro-

406,600 (1995 estimate)

3.2

25.5

13,5

88.5

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Imports

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...... Grand Duke Jean

vided imposition of an EU-wide withholding tax, or minimum reserve requirements, do not erode its attractiveness, the financial sector sees little to fear in monetary union.

More pressing worries are that tax breaks offered by emerging financial centres such as Dublin could lure business away - as could rapidiy increasing personnel costs. which in banking have risen from 19.5 per cent of total revenues in 1990 to 23.6 per cent ast year.

The government is already tackling the former problem. Mr Jean-Claude Juncker, the prime minister, in a state-ofthe-nation address earlier this month, announced corporate tax cuts aimed at "encouraging investment and making the Luxembourg economy more competitive".

These included reduction of corporate income tax by 1 percentage point a year from 33 per cent to 30 per cent by 1999, and abolition of a 4 per cent working capital tax - equivalent to a total reduction in tax revenues next year of LFr4.1bn.

Measures aimed specifically at the banks included reduction of the subscription tax on investment and money market funds from 0.03 per cent to 0.01 per cent by 1998, cutting tax revenues by a further LFr600m. The budgetary shortfall is to be made up by spending cuts and, eventually. increased taxation from incremental husiness.

Efforts are also being made to tackle the problem of rising labour costs. Although wage rises in Luxembourg, as in Belgium, continue to be indexed overall to the cost of living, banking unions have been persuaded to accept more flexible application of the system, with wage rises more closely linked to performance and seniority. The sensitive subject of

indexation may be reviewed in

coming years, but few believe it will be removed ("Only if Belgium moves first," com ments one official). Some, such as Mr Pierre Jaans, head of the Institut Monétaire Luxembourgeois, defend indexation, arguing that in a low-inflation environment it poses few dangers, while the guarantee that real incomes will be stable acts as a powerful "anaesthetic" on trade unions.

The unions might, bowever, he waking up. Public-sector employees staged an almost unheard-of one-day strike last year over the introduction of employee pension contributions. Observers say this points to perhaps the most important challenge for the Luxembourg government: reform of the costly pension and social security systems.

Luxembourg's own pensions "time bomb" resulting from the nost-war baby boom is not set to explode until 2015 - five years later than in many EU states. But it is already seeking to ease the squeeze on public

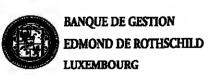
The Duchy's 16,000 government employees currently enjoy a generous pension of 83 per cent of final salary. Tough negotiations are under way with the unions to reform both pension and contribution rates. aimed at reaching agreement on harmonising them with those in the private sector by tbe year-end. Government bopes this will send a signal to private sector companies to take similar steps to put their

pensions bouses in order. In the longer-term, observers expect Mr Juncker to tackle the sensitive issue of social security costs - likely to require all his considerable political skills if be is to preserve Luxembourg's muchprized social harmony.



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Jean-Claude Juncker, prime minister

Solid faith in Europe's future

Mr Jean-Clande Juncker. Luxembourg's prime minister, belongs to the new generation of European political leaders. Aged only 41, he exudes a hreezy confidence which draws on deep religious convictions, a rock-solid faith in the future of Europe, and a near-effortless rise to the top in his own country.

Mr Juncker vanited mexpectedly into the premiership 18 months ago after Mr Jacones Santer was summoned to Brussels to become president of the European Commission. The vouthful Christian Democrat had long been groomed for the post; his talent was spotted more than a decade before by Mr Pierre Werner. the former prime minister and intellectual godfather of European monetary union. Now Mr Juncker must show

whether he can live np to Mr Werner's expectations. He must preserve Luxembourg's position as a dynamic hub in western Europe as the European Union prepares for two historic missions: monetary union and enlargement to central and eastern Europe. Both will require skilful political management. So how does Mr Juncker believe the EU sbould proceed?

The first task is reach a easonable agreement at the EU's inter-governmental conference, says Mr Juncker. He knows a thing or two about IGC negotiations. having helped to draft much of the Maastricht treaty's language on monetary union during the Luxembourg presidency of the EU in the

summer of 1991. His father, a no-nonsense steelworker, once asked him to explain the Maastricht treaty during a walk in the Grand Duchy's forests; three bours later, Mr Juncker wrapped up his exposé. Anything which takes that long to explain does not have much to recommend it," said his father, echoing a widespread feeling among the European public. Mr Juncker views

Maastricht 2 with a mixture of bope and trepldation. His hope is that EU leaders will take steps towards deeper

political integration necessary to lay the groundwork for enlargement to central and eastern Europe. but also to complement the deeper economic integration implicit in a monetary union in which Luxembourg will be

a certain member. His fear is that leaders will flinch as in Maastricht 1, although he warns: "It would be a disaster to go ahead with

monetary union without secure its eastern borders and greater political union. avoid a security vacuum in

These views match those of Chancellor Helmut Kohl of Germany who sees Mr Juncker very much as a protege. Coming from a country twice overrun this entury by German armies. the Luxembourger finds no problem in supporting Mr Kohl's comment that political integration in Europe is about war and peace. Listen closely to Mr Juncker and it is clear that he sees movement towards polltical unity in continental Europe partly as a means of managing German

power. "Helmnt Kohl is the last European. the keeper of the Holy Flame. If you look at the past 50 years, you should take the chance Helmnt Kohl is

offering. The other Germans don't feel Europe in their bones as he does; and they won't cnt a deal like he did on monetary union."

Without further moves towards a political unity - snch as an extension of majority voting and a dilution of the national veto - Germany would face a difficult choice: elther to delay enlargement on the grounds that the Union is plainly unfit to take in new members, or whether to press ahead regardless in order to

the centre of the continent.

One answer is to adopt the

'variable geometry" favoured

Mr Juncker suspects

by France, Germany, the

European Commission and

the Benelux countries. This

would allow some countries

to move ahead of the rest, to

Mr Juncker believes this

new-found flexibility could

dilute the collective force of

example to the central and

How could one include the

the Union, setting a bad

Hungarians in a future

common European foreign

east Europeans.

co-operate more closely in

certain areas in a more

diverse 20-plus Union.

Germany would choose 'widening" over "deepening".

policy and exclude the Slovakians, he asks. On balance he feels it would be better to allow those with the greatest ambitions to move forward rather than being held back by recalcitrant states, notably Britain. The alternative is paralysis.

Yet Mr Juncker is a good deal less critical of the British than might be expected. He agrees with the British criticism that Maastricht promised too much in areas such as a common foreign and security policy. He is critical of countries who hide behind a bolshy Britain to cover up their own reservations about EU policies. He appreciates the British contribution to the balance of power in continental Europe, even if he would never use such a 19th

century expression. Indeed, Mr Juncker will be as obstinate as the British when it comes to defending his country's interests in the IGC. He will insist on retaining Luxembourg's right to a commissioner in Brussels. He will resist extending majority voting to fiscal policy because it would threaten the Grand Duchy's status as a withholding tax haven. But he faces an uphill battle to maintain Laxembourg's voting weight in the decision-making Council of Ministers.

On monetary union, Mr Juncker is as adamant as Mr Santer in insisting that It must go ahead on schedule in 1999. The final decision, he says, will be polltical.

In the spring of 1998, EU leaders will study the recommendations of the **European Monetary Institute** and the European Commission on which countries qualify, especially on public deficits which are supposed to be trimmed to 3 per cent of GDP. But. hypothetically, "if Germany is 3.5 per cent and France is 3.7 per cent, It's OK. You are not going to miss an historic opportunity over 0.4 per

Lionel Barber

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FINANCIAL TIMES

Insurance: by Robert Garton

THURSDAY MAY WIL

policy and exclude the Slovakians, he asks. Un balance he belta a be occur to allow those a move forward rather the being need back by revulcurant states.

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Preliminary figures show a 160 per cent increase in premium income for the year

The European market for life insurance products is huge: recent estimates put It at \$142hn. Luxemhourg is uniquely well-placed to take advantage of the liberalisation of insurance legislation, thanks to its geographical position, but more importantly because of its regulatory regime, its multilingual people, the financial expertise on tap, and because of the strong base it already has in cross-border

impetus to the life and pensions industry has been added hy the Third European Life Directive, which has brought down cross-border barriers by permitting life companies to set up operations in any of the 15 different European Union member states, while still heing controlled by domestic regulations.

Hopes that Luxembourg would benefit from the third directive, and see life insurance become a third pillar of the financial edifice, alongside banking and investment funds, are proving well-founded. Preliminary figures from the Commissariat aux Assurances, Luxembourg's regulatory body for the insurance sector, show a 160 per cent increase in premium income for the year to December 1995, surging from LFr38bn the previous year to LFr110bn. The first quarter of this year is also expected to produce a sharp rise. The figures are a reward for

the strenuous efforts made, particularly, hy Mr Victor Rod, the commissariat director, to create the right framework in Luxembourg for growth. Crossborder activities accounted for about 90 per cent of last year's increase in premium income, the bulk of it from recentlyformed companies. The past four years have seen 20 new companies set up in Luxembourg in the life sector, all subsidiaries of leading European companies, or joint ventures. Three have been created this

Says Mr Rod: "My expectation is that in the coming years the growth will continue.

"We are laughing with one eye but crying with the other. On one side, we are very happy about the development, but we realise that it will be very difficult to sustain an increase of the order of 160 per cent! But 1 am very optimistic about 1996."

Insurers with life and pensions products are also looking at the demographic changes in Europe: a rapid rise is forecast in the number of retired, relatively wealthy people, which will prompt a far greater demand for private pensions. Estimates from the European Federation for Retirement pro-

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the ratio of people aged over 65 to those in the 15-64 age hracket will have doubled in Germany, France and Belgium, and almost trehled in the Netherlands.

UK-based insurers - and the foreign companies holding o stake in them - have an important advantage in trans-border insurance: the British regulatory framework is relatively light, and the life industry has been able to devise many prodncts maximising return, while minimising tax on income and capital gains. They can also point to the City of London, where investing in equities can produce higher returns than insurers in continental Europe derive from investments in bonds. Additionally, entry into the wider European market can help offset domestic losses resulting from the slow market and the scandal of pensions

Clerical Medical International, an arm of the UK-based investment group, is making a

The guaranteed format is particularly important in Germany

strong effort to crack the European market. The group, which has £11.5hm of funds under management, opened another full branch in Luxembourg last year as a springboard to the continent. It already had a funds operation, CMI Asset Management, in the Duchy. The new office has about 40 staff from nine countries speaking a total of 10 lan-

Mr Ken Swaln, regional director for Europe, says: "We've targeted Germany, so we have a product tailored for It. We see Germany as the number one country because of its wealth and population

Life insurance premiums in Germany rose in 1995 from DM83bn to DM88bn, making up roughly 2.5 per cent of GDP. [The country's industry association, the GDV, recently forecast that growth in overall preminm income would slow to 45 per cent this year. Mr Bernd Michaels, GDV president, blamed the weakening economy and an increase from 12 to 15 per cent in insurance tax. Significantly, however, he expected life insurance to perform much better as more people were investing in private pension schemes.

CMI, which is aiming for 0.5 per cent of the German market, has lapnched a fully ownpliant UK-style endowment product, with a guaranteed structure, linked with the Wealthmaster growth fund which it pioneered in its offshore headquarters in the Isla

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3

Investment funds: by Robert Garton

Uniquely well-placed Duchy is a victim of its own success

There is still a is particularly important in Germany, where investors are still seen as risk-averse. The retaliation from unit-linked side is growing slowly, but the Germans have not taken to it as readily as countries anxious some other countries. From Germany, CMI intends to spread into France, Italy and of funds

Belgium, reaching seven countries by the end of the year. and deriving 40 per cent of The latest UK insurer to set up in Luxembourg is the Edin-Europe's offshore fund assets. hurgh-based Scottish Equita-

hle, which has more than £8bn funds under management. Scottish Equitable International aims to provide investment products and life and pensions products through Europe and has initially tar-Mr Otto Thoresen, director of

international operations, says it has a combination of strategies. From the UK it plans to diversify from pensions, making more technical use of insurance products in personal investment. As European funds are becoming more attractive it is putting together a range of personal investment plans, giving the financial advisers with whom it works greater choice and access.

group business overseas.

Scottish Equitable has been active in Italy for four years, in SICAV (société d'Investissement à capital variable) funds, working with banks in Lombardy. Mr Thoresen says: "Its success has encouraged the company to develop life products to be sold from Luxembourg into Italy, It gives us the opportunity to experiment to some extent, to combine our knowledge of the UK together with that of our partners and distributors." The products are a few weeks away from launch. Luxemhourg was chosen

because Scottlsh Equitable wanted a European focus, rather than having an eye towards the Far East. That narrowed the choice down to Luxembourg or Dnhlin, Mr Thoresen had also had some personal axperience in the Duchy dealing directly with SICAV products; it was seen to have a distinct advantage in marketing; there was also the cultural issue with the views of the Italians.

Also, Scottish Equitable went into partnership in 1993 with Aegon, which has a strong presence in the US and worldwide aspirations. "We were asked to build a Third Life Directive for the company "They felt Luxembourg was the best option. "Going to Luxembourg

meant we have had to be very careful about our cost base. think, however, that the cost differential with Dublin is only temporary.

prospect of further Germany and other to stem the outflow

Luxemhourg continues to eniov its pre-eminence at the centre of European investment funds, controlling almost 90 per cent of continental

There are now 220 banks in the Grand Duchy, directly employing more than 18,000 people. The industry revived after a sticky period in 1994, with assets growing by more than 11 per ceot last year. There were some 400 new launches, totalling \$24hn.

The Grand Duchy's proxim lty to Germany, Switzerland and France is still the key, with those three countries accounting for 76 per cent of activity. Swiss promoters have edged ahead of their German counterparts in recent years. partly as a result of a crackdown by German authorities on the exodus of savings and the loss of tax revenue; partly because of Switzerland's tax regime and the banks' need for a truly international base,

Elsewhere, France has some 6 per cent of total Luxembourg fund assets, valued at \$19hn. The US now ranks just behind France, with 29 promoters aiming at the single market, the biggest being Fidelity Investments which has \$4hn under management. UK fund managers are led by Flemings, which has \$2.8bn under management and has funds notified for sale in 12 countries. Flemings and Fidelity hoth have Luxembourg funds authorised for sale in Hong Kong.

own success. There is still a prospect of further retaliation from Germany and other countries anxious to stem the outflow of funds, And there have been problems over the application and interpretation of the Ucits (Undertaking for Collective investment in Transfer-

Fund assets

Lift '000 billion

Luxembourg is a victim of its

SFr36hn. Mr Barandun, like many others, was eagerly looking forward to what the government had to suggest in its new tax package that would reinforce the duchy's competitiveness

Mr Henry C, Kelly, director of Fleming Fund Management (Luxembourg), was also hoping for a decision on tax. Although the government had responded to pressure by reducing the toxe d'obonnement (capital duty on funds) last year from 0.06 per cent to 0.03 per cent on money market funds and funds of funds, he hoped it would be

ohle Securities) directive on

There may be other clouds on the horizon, in the shape of

competition from emerging

financial ceotres, but the Lux-

embourg community does not

expect immediate rain on its

parade. At the same time,

developments in the wider

Europe are giving a fresh impe-

tus to the Duchy's financial

Mr Rico Barandun, manag-

ing director of Credit Suisse,

Luxembourg, said: "We are

optimistic about the future and

we are making good progress

in Luxembourg." He said 1995

had been a successful year and

the first four months of this

ume rose 9 per cent last year to

year were even better. The bank is custodian to 95 mutual funds, whose total vol-

cross-border funds.

centre.

further reduced. Although this is an impor tant source of revenue for the Grand Duchy, Mr Kelly, who is on the committee of Alfi, the Luxembourg investment funds association, is looking for the eventual abolition of the duty as a clear signal of commitment to the industry. Flemings has recently redenominated into D-Marks all its European funds to get closer to the investors' requirements. The exception is UK equity funds which continue to be denominated in sterling.

The higgest challenge facing the investment fund sector over the forthcoming years will come from the pensions market, as a rapid rise is forecast in the proportion of retired people in France, Ger-

Growth of assets by investment type



Patrick Zurstressen: We are meeting a very heavy response indeed

many and Italy, propelled by the post-war "hahy hoom", ever improving health and lifespans, and increasing costs of healthcare. Mr Kelly describes this as a "time-bomh ticking across Europe".

"Governments are seen as being incapable of meeting the whole cost of providing adequate pensions, and more people are looking to investment funds, either as individuals, or with schemes from insurers."

Mr Patrick Zurstrassen of Banque Indosuez says Luxembourg is reflecting what is happening in the rest of Europe: in Germany there is a heated debate on the merits of investment funds as pension investments. It may altimately lead to something similar to the US 401K regulation, where corporations make available to their employees a range of investment funds so they can choose and keep the benefits for their retirement.

In Germany, a modernisation of the funds system could incorporate pension investment funds; an employee would then have a choice of eligible funds. If Germany shows the way, it may mean that employees of company Z could invest in fund A. where the two have absolutely no

Bond

Equity

Other

- 120

relation to each other. Mr Zurstrassen says: "This would open the way to huge investment. The question would be. How can investment funds, which are a lean and efficient way of investing money, be better used for pension funds?

Investors and companies aiming to provide for retirement will give a further boost to the rapidly growing interest in guaranteed funds, because these give clients the opportunity to profit from higher returns by investing in, say, the emerging markets, where they have exposure but oot the

Investors are heing offered greater innovation and lowerrisk products. Flemings Guaranteed Pacific fund, launched in April, is a D-Mark-denominated fund allowing a way into the dynamic stock markets of Japan, Hong Kong, Australia and Malaysia, while limiting the potential loss of capital

Fund managers are becoming increasingly frustrated hy the delay in formulating the second Ucits directive, following up the 1988 legislation and covering areas and products excluded from the first directive. Lack of clarification has led to confusion, with some cross-border funds being refused a "passport" by some EC member states, and some inventive ways of getting around barriers.

Mr Adam Fox, managing director of corporate funds management services at Commercial Union, says: "Perhaps they've tried to do too much in one go. They've taken on a all countries and certain people who are unhappy about some parts of it.

"If they had broken it down, then some areas which are less controversial would have been agreed quickly. The first directive provided a good frame-

work, but then it should have been split into smaller parts." After a year of consolidation

in 1995, Mr Fox is beginning to see more activity in the markets, which will benefit investment funds. CU, which has £230m funds under management, is seeking to expand its volume of funds and looking at new distribution partnershi It launched in Norway at the beginning of the year.

Innovation is springing from high technology. Banque Indo-suez has introduced "cloning" a data-processing tool which allows for the globalisation of the management and administration of assets belonging to legally independent entities. Mr Zurstrassen says: "We had expected a slow start to this, but in fact we are meeting a very heavy response indeed."

Cloning enables promoters to create a series of different investment funds, each adapted to an individual market or market segment. It reconciles multiple atructures while reducing management and administrative costs.

There is a measured response from Luxemhourg's banks and fund managers to the threat from other emergent financial centres, such as Dublin. They point to the Grand Duchy's advantages in the proven expertise of its people, the government's attitude to promoting and furthering the special offshore husiness, the ready accessibility of funds. confidentiality and investor protection.

Mr Kan Swain, of Clerical Medical International in Luxembourg, helieves the continental European investor is far more comfortable in the Grand Duchy than he would be in Duhlin, which he doesn't know, and he stresses the importance of language. "The Irish people are very

good and they travel well, but they are not by nature multi-lingual. Most of our staff here speak two or three languages fluently and that level of communication with the client is vital." Languages apart, however, the key is in providing what the client wants. Mr Swain says: "If yon can't deliver a quality product for the market you're aiming at. you'll not be successful. Mr Zurstrassen, president of

the investment funds association, says that when all the costs are considered, plus productivity and results. Luxembourg comes ont favourably. "We want to stop worrying about it, and the only way to stop is to ensure that you serve the client in all the areas he wants to be. We have to neutralise the country dimension and focus oo the service

BCEE Highlights 1995

KEY FIGURES

1994 Var. in % 95/94 1995 1993 In millions of francs in millions of US.dollars* 659,593 790,717 + 11.1% 711.940 Balance sheet total 26,868 Amounts owed to credit institutions 210,372 257,947 + 22.6% 189,683 8,765 Amounts owed to customers + debts 457,309 + 4.9% 479,576 16,296 evidenced by certificates 431,204 Loans and advances to customers 179,804 190,789 209,139 + 9.6% *7*,106 + 8.6% *7*68 Basic own funds (tier 1 capital) 19,282 20,823 22,609 Net bank margin 9,070 9,753 + 7.5% 331 8.851 1,605 1,774 + 10.5% Net profit 1,512 60 Staff (number) 1,695 1.717 + 1.5%



Main developments in 1995

- M Annual growth of 11.1% of the balance sheet total which reached 790.7 billion france as at 31.12.95. Exceptional performance in the field of savings deposits (+15.3%) and treasury bills in francs (+281.2%).
- Rapid progression of uci activities, in particular BCEE's own sicavs.
- Extension of the range of services offered in the field of customized portfolio management and improvement of the quality of service by the training of some sixty advisers assigned to around 40 branches.
- Increase of 6.6 billian froncs (+4.8%) of the total exposure of loans and credits to the national economy.
- E Continuation of the promotion efforts in the area of housing loans (+7.7%) with an increase of 3.2% of the number of new loans to individuals.
- Development of activities in the field of mortgage savings agreements (in co-operation with the BHW building society) as well as of the selling of insurance products (jointly with the insurance company "La Luxembourgeoise S.A.").
- ement and diversification of the refinancing sources following the awarding of the excellent ratings AA+/A-1+ and Aa1/P-1 by Standard & Poor's, respectively
- Moody's, Successful launching of the euro-medium term notes programme and extension of the eurocommercial paper programme on the international capital market.
- Extension of the electronic banking equipment of the selfbanking network "S-Bank" at 42 branches. me Increase of the cash-flow by 18.4% and of the net profit by 10.5%. The latter reached 1,774 million francs.
- E Completion of the construction of the bank complex "Rousegaertchen" and opening of the Bank's Museum at the head office 1, Place de Metz.
- " exchange rate on 31.12.1995; TUSD = 29.4300LUF





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■ The media sector, by Neil Buckley

Support is deeply rooted

The same geographical and cultural factors that supported the growth of the financial sector have also encouraged media development

First there was steel, then came the banks; now there is the media sector. Luxembourg's government is already talking of media as the third wave in the development of the Duchy's economy.

Compagnie Luxembourgeoise de Télédiffusion, better known to millions as the operator of various RTL channels, is already one of continental Europe's most influential broadcasters, with 14 television channels in six countries and 18 radio stations across eight countries. It is set to be a ploneer of digital broadcasting, following its inclusion, via a proposed merger of its television interests with those of Germany's Bertelsmann, in a three-way alliance with France's Canal Plus, and Mr Rupert Murdoch's BSkyB.

Luxembourg-hased Société Européenne des Satellites (SES) bas in a decade established Itself as the world's higgest privately-owned TV satellite operator, creator of the Astra system.

Now attention is turning to Europe Online, the fledgling online computer service provider launched last December, whose shareholders include Germany's Burda, Pearson, publisher of the Financial Times, and several Luxembourg-based investors. The company aims to provide online services via the Internet in all the main European languages, offering an alternative to English language-only US services such as America Online.

But while the media sector's rise is sometimes portrayed as a recent phenomenon, government support for private media investors is deeply rooted. The same geographical and cultural factors that supported the growth of the financial sector have also encouraged media development

One crucial factor is that, despite its size. Luxembourg's sovereign status means it is entitled to its own broadcasting frequencies. In the late 1920s, when European states were allocated radio frequencles through an international agreement in Geneva, the government took the important decision to allow a private company to use them, rather than creating a public service broadcaster. French investors and Luxembourgish technicians set up the then Compagnie Luxembourgeoise de Radiodiffusion (CLR) as Europe's first commercial broadcaster in 1931.

In 1983, when the government granted a franchise for use of the satellite frequencles it had been allocated, giving hirth to SES, it was repeating the precedent set half a century earlier.

Other advantages include Luxembourg's



eau de Betzdorf, HQ of SES, the world's biggest privately-owned TV satellite operator

geographical position in the centre of western Europe, and Luxemhourgers' famous facility with languages. That made it possible, even in the 1930s, to broadcast into several countries in different lan-

CLR's English-language talk and light music programming at the weekend helped it gain popularity as far away as the UK - where the BBC then played only classical music at weekends - laying the foundations for the future international

success of Radio Luxembourg.

CLR became CLT in 1954 with the launch of Télè-Luxembourg, but it was in the 1980s, with deregulation of European broadcasting, that it became a significant force in European television.

It "de-localised" its business, setting up companies in other markets with local partners. Today, with Bertelsmann, It controls RTL, the biggest German channel with an 18 per cent audience share, and it bas stakes in Germany's RTL2 and Super RTL; in France, it has a share in M6, with 12 per cent of the TV audience, and three other channels. It has two channels in the Netherlands, including the biggest, RTLA: two in Belgium; and recently it gained its first TV footbold in the UK with a stake, alongside Pearson and MAI, in Channel 5, due to launch next year.

Now, via the grand alliance between Bertelsmann, Canal Plus and BSkyB, CLT is set to participate in the higgest exploslon of broadcasting services since the birth of television. The alliance will have an estimated 25 satellite transponders. capable of broadcasting 250 digital satellite channels.

The partners aim to launch such services in several countries, starting with Germany. The deal must be approved. however, hy the German and European Commission's competition authorities. either of which may demand changes.

Decisions are unlikely before the year-end. SES, too, is positioning itself to take advantage of the coming growth in digital TV, with a \$900m investment in new capacity. It launched its fifth satellite, Astra 1E - the first dedicated to digital transmissions - last year, and is due to launch the sixth, Astra 1F, shortly. It has a contract with Hughes Space and Communications for another satellite to he

launched next year. Europe Online is the emerging third pilar of Luxembourg's multimedia edifice. It had a somewhat shaky start last year. with a significant switch in strategy months before launch from being a "closed" system - with a contract already signed to use the interchange software of AT&T, one of its sharebolders - to an open domain on the Internet, using Netscape software. It lost its chief executive, Mr Christian Bruck, and a leading shareholder, France's Matra Hachette.

But five months after launch, Mr Jürgen Becker, the new chief executive, says Europe Online is achieving an encouraging 220,000 "hits" a day. It has 30,000 paying subscribers, well short of the eventual target of 250,000, but, says Mr Becker, this is a creditable achievement given that much of the service can presently be accessed for no charge via the internet. The main benefit for subscribers is the right to establish their own home page on

German, French, English and Luxembourgish services are already operating; the Dutch-language service is ready for launch, followed by Italian, Spanish, Swiss and Austrian versions next year.

Mr Becker says the move from closed system to Internet domain - like that of Microsoft's Microsoft Network - was based on the assumption that large telecoms companies such as AT&T will gradually become the main internet access providers, replacing the internet "gateways" provided by online services such as Compu-Serve or America Online. The latter will shift from being closed systems to paid-for Internet domains. Many other internet services such as electronic newspapers which, like Europe Online, are currently offered free, will become paid-for.

Users will pay an internet access fee to a telecoms company, then assemble their own "à la carte" selection of paid-for Internet services. If this sbift happens, Mr Becker believes Europe Online can meet its target of breaking even by 1998.

Institut Monétaire Luxembourgeois

Reputation for efficiency

It is a little surprising to find that the central bank director of the only country which currently meets the conditions for joining a European single currency is rather sceptical about the wbole idea.

While much of the rest of the Grand Duchy seems to be preparing enthusiastically for monetary union, Mr Pierre Jaans, director-general of central bank, the Institut Mooétaire Luxembourgeois, admits to some misgivings. "I am already known as a

eretic. Fortunately I come from Luxembourg," he jokes. in fact, Mr Jaans' self-deprecating comment masks the fact that both he and his country have played an important part in the debate on the introduction of the Euro.

The goal of European monetary union was first nooted by a Luxembourger the then prime minister Mr

Pierre Werner, in 1970. Mr Jaans was a member of the 17-man committee set up in the late 1980s by then Ruropean Commission president Mr Jacques Delors. which mapped out the phased approach to economic and monetary union enshrined in the Maastricht treaty and now being implemented. And after 13 years heading the IMI... Mr Jaans is one of the EU's two longest-serving central bankers - the other being Mr Wim Duisenberg. Dutch national bank president, set to succeed Mr Alexandre Lamfalussy next year as bead of the European Monetary Institute, the embryonic European central

Mr Jaans' worries about the possible side-effects of a single currency were set out in an appendix he wrote to the Delors committee's report. Broadly, be fears that the loss of national exchange rates as important indicators of confidence in nation states' economic policies could lead to policy adjustments not being implemented anickly enough - which could cause economic damage and "disindustrialisation"

in the interim. As a former economist, Mr Jaans even dares to question some of the modern economic orthodoxies underpinning the assumption that monetary

union is necessary. "We are so convinced that only stable money leads to loyment, growth, welfare and so on. But there are very recent examples that point to the contrary," he says, citing Italy, whose post-war inflation rate has been one of the highest in the EU, but where the process of wealth creation and rising living standards has been among the most visible.

But overlying the intellectual scepticism of the economist is the pragmatism fostered by 20 years as supervisor of Luxembourg's banks. Mr Jaans is sure of two things. One is that monetary union will go ahead as planned in 1999. The other that Luxembourg will, and must, be a member.

"It is a project in which so much has been invested in political terms," he says, "ft Is not important whether there are real economic gains. ft bas become politically so important it cannot be

The tiny Luxembourg ecocomy is unlikely to be vulnerable to the pitfalls of monetary union he fears for larger states, Mr Jaans adds. On the contrary, the Ducby has much to gain from membership of what will be one of the world's three most powerful currencies.

Luxembourg knows all about monetary union baving since 1921 had the Luxembourg franc at par and fully interchangeable with the Belgian franc.

Mr Jaans knows, buwever, that wider European monetary union will spell the end of the IML's short-lived role as a central bank - the rule for which he belped to create it. Mr Jaans began his career

hy spending 10 years at the Germany Bundesbank in Prankfort, and a spell with the Organisation for Economic Co-operation and Development (OECD) in Paris.

before returning to Luxembourg in 1975 to head the banking supervisory body, the Commissariat pour Contrôle des Banques. At that stage, the Luxembourg government was directly

responsible for issning notes and managing state reserves. As the first debate on monetary union gathered momentum after publication of the Werner plan. Mr Jaans and his colleagues feared Luxembourg could be excluded from the discussions if it did not have an institution recognisable as a central hank.

"My concern was that if Luxembourg did not have an institution independent from the state, if [the Commissariat] was focused only on banking supervision, Luxembourg would not have the opportunity to participate in something that it seemed could only be a partnership of European central banks." be

He took his concerns to Mr Werner, who approved creation of the IML combining the banking supervisory functions of the Commissariat with the government's monetary responsibilities, in 1983

Since then, despite its size only 100 employees, about two-thirds engaged in banking supervision, to keep an eye on Luxembourg's 200-plus banks - it bas gained a reputation for quiet efficiency. Only once has that reputation been seriously challenged; by the 1991 collapse of the Bank of Credit and Commerce international, nominally headquartered in Luxembourg.
Mr Jaans admits that BCCI

was his most "difficult moment", because the IML, along with banking supervisors in London and elsewhere, was sternly criticised for nut having spotted the problems sooner. In fact, Mr Jaans had several times warned that Luxembourg was nut equipped to monitor BCCI, when so much of its operations were ontside Luxembourg, and be had tried to get it incorporated in a



larger financial centre such "BCCI here had 60-80

people," he says. "Worldwide, it had 14,000 people." He says some of the criticisms aimed at the IML and other regulators were unfair and misconceived.

While the IML will lose its monetary functions post-Emu, its supervisory function is likely to be increased. European monetary union will spell the end of Luxembourg's bilateral union with Belgium and Mr Jaans has agreed with Mr Alfons Verplactse, governor of the Belgian national bank, that the institute will take over the Belgian bank's office and staff in Luxembourg - boosting its staff from 100 to nearly 160 people.

The IML will lose its sovereignty, but hy then, Mr Jaans says, it will have fulfilled the function for which it was set up - to guarantee Luxembourg a seat at the table in the discussions, and on the board of the future European central bank.

"We will become district bank number such-and-such of the European bank, serving the Luxembourg financial community," says Mr Jaans.

"But I have no misgivings about that whatsoever." he adds, "After all, for 10 years of my life I worked in what will be district bank number

Neil Buckley

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Banque Générale du Luxembourg in 1995 Important growth in Activity and Results THE PLANTS

Increase of domestic savings rate and of real estate investment credit

Increased demand for asset management and liscal and legal engineering services

 Increase in money and capital market activities following operation of new trading room Increase in the bank's activities as administrator of securities, investment funds and other financial products

Consolidated Highlights (in millions of IJSD)

		1000	2 change 94/3
Total assets	26,584	30,157	+ 13 4 %
Amount due lo customers	18,341	20,054	+ 9.3%
Claims on customers	4.388	4.568	+ 41%
Claims on credit institutions	13,191	14.722	+ 11.6%
Securities portfolio	2.705	3.81a	+412%
Own funds ⁿⁱ	1,246	1,289	+ 34%
Profit for the financial year	92	102	+ 17.0%
Dividend per share (in USD)[2]	34	40	
The after distribution of profits. The before withholding the	Exchange	rate 31 12,1995	+ 18 0 %



BANQUE GÉNÉRALE DU LUXEMBOURG

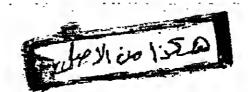
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CROATIA



The prospect of rapid growth

holds out the opportunity to

build the middle class required

President Tudiman, obsessed

with changing foreign percen-

tions of Croatia as a Balkan

country, wants this beautiful

country of high mountains,

Adriatic islands and lusb

valleys to be seen as part of

central Europe, as much an

heir to the civilised Hapsburg

legacy as Hungary or the

It is on its way. For future

behaviour in eastern Slavonia

and Bosnia, and the treatment

of the media and the opposi-

tion, could well decide the out-

Croatia is not there yet. But

Czech republic.

to underpin democracy.

Victory – but with a darker side

Laura Silber and Anthony Robinson examine the difficult challenges facing the government at home and abroad after years of brutal and costly civil war

Historians will long debate whether the irreconcilable claims of Croatian and Serb nationalism inevitably required a violent resolution. or whether the dissolution of Yugoslavia could have taken place peacefully, by negotiation not war.

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Five years after war erupted, however. Croatia bas emerged as a winner. After initially losing nearly 30 per cent of its territory in the six-month struggle between the poorly armed Croatian militia and Serb rebels backed by the Yugoslav Peoples' Army (JNA) in 1991, it is poised peacefully to recover the last of its lost territory and for resumed economic growth.

a dark side.

The Croatian army regained western Slavonla and Krajina last year in two blitzkrieg campaigns which led to the flight of over 150,000 Serbs from lands they had populated for centuries

That victory was blighted by the destruction of an estimated 20,000 Serb bomes and the murder of many of those, mainly old people, who remained in the abandoned towns and vil-

This method of waging war. already sadly familiar in the earlier ethnic purging of previously mixed regions by Serbs and by all parties in Bosnia, bas gone largely unreported. by contrast with blanket cover-

age of earlier atrocities. The reasons for silence help to illuminate both the domestic political situation and the international environment within which Croatia, despite its small 4.7m population, bas emerged as a US-backed power be reckoned with in the Bal-

Croatia's vocal opposition parties refrained from comment on the Krajina atrocitles for fear of being tarred with unpatriotic hehaviour. Mr Ivan Zvonimir Cicak,

leader of the Croatian Heisinki human rights monitoring association (HHO) has been a virtually lone voice of moral outrage against what he believes

is a government-sanctioned

policy of murder and harass-

ment in the re-occupied lands. Western governments turned a blind eye to the build-up of the Croatian army and formally called for restraint dur-

ing and after the fighting. But they barely disguised their relief that the territorial gains, especially the wiping out of indefensible pockets of land in Bosnia, created a de facto division of forces which helped to make last December's Dayton peace agreements

. It was left to the foreign ministers of the European Council to voice the strongest concern over Croatia's human rights record and democratic credentials by postponing indefinitely Croatia's entry into post-war Europe's oldest organisation

earlier this month. The decision infuriated President Franjo Tudiman, the former communist general turned nationalist, who led the fight for independence and who portrays Croatia as a hulwark of Christian civilisation and democracy.

The president is by far the most powerful political figure in the country as commander of the armed forces and leader of the Croatian Democratic Union (HDZ).

But the HDZ, which reemerged as the largest single party after last October's general elections, fell far short of the hoped-for two thirds majority which would have allowed it to re-write the constitution. In addition, the HDZ failed to win control over Zagreb, the

capital, and other big towns. October's vote showed that after five years of war, tension and economic deprivation, an increasing number of Croats appeared to be tiring of living in the extraordinary times

which demanded a charismatic

"We have survived as a nation and a state. The ques-tion now is what kind of state do we want to build and bow should people live within it," says Mr Ivica Racan, leader of the Party of Democratic Changes, a social-democratic opposition party.

The way in which Croatia treats the Serbs will define what kind of country it becomes, it will either end up as a mono-ethnic state wrapped up in its national symbols, or become a truly democratic state in which all its people enjoy rights based on their citizenship," a promi-

nent western diplomat adds. The last remaining part of the country still in rebel Serb hands is eastern Slavonia, But Mr Mate Granic, the foreign minister, says be is "now optimistic for the first time about prospects for the peaceful re-integration of eastern Slavonia."

This would not have been possible without the US-brokered Dayton accords and the steady progress towards the normalisation of relations with Serbia. This has already lead to the re-opening of the Zagreb-Belgrade motorway, which links Europe to the Middle East, and the Adriatic oil pipeline from the Croatian island of Krk to Pancevo refinery near Belgrade. Telephone links have also been restored and the rail connection is due to be

restored shortly Another foreign policy priority for Croatia is making sure that the peace process in Bosnia-Hercegovina remains on track. "The Croat-Moslem Federation is a basis for peace and stability in the region," says Mr Granic who describes all other options as "painful and

unacceptable for Croatia." If the Dayton and eastern Slavonia agreements are implemented auccessfully. Croatia believes another reward will be within reach: membership in Nato's Partnership for Peace by the end of the year. Croatian officials see this

step towards Nato as crucial to ensuring Croatian security. But Croatia's relationship

with the European Union Is a chequered one. Relations with Bonn, which along with Aus-

tria, played a decisive role in advocating Croatian independence at the onset of war. cooled after the collapse of the Moslem-Croat alliance in 1993. They have chilled further with Bonn's support for opposition parties and criticism of the government's clvil rights

Austria is Croatia's biggest foreign investor and Croats see Vienna as one of their closest allies while neighbouring Slovenia is the third largest trad-

Croatia also seeks closer relations with Albania, Greece, Turkey, Bulgaria, Romania and Italy while keeping close touch with the large Croatian diaspora which provides impor-

tant financial support. The government hopes Croatia will be accepted as a full member of the EU early in the next century and has already made substantial progress towards a market-based econ-

An economic stabilisation policy introduced in 1993 has been strictly adhered to. The successful introduction of a new national currency, the kuna, in 1994 has been facilitated by a tight monetary and fiscal policy which cut inflation to 8.5 per cent last year.

In April, Pliva, the innovative pharmaceutical company which is the jewel in Croatia's economic crown, raised the country's international profile by becoming the first east and central European company to get a listing on the London Stock exchange after raising

\$160m from foreign investors. Meanwhile, the successful renegotiation of Croatia's \$4.7bn debt to creditors of the London and Paris clubs has paved the way for an international credit rating later this year and opened the doors to

further foreign borrowing. After years of the destruction of war and the buge sacrifices demanded from the population to build up an army, the economy is now poised for rapid growth of between 5-7 per cent this year.

HUNGARY

Area Population Head of state	., President Fra	4.8 millio Injo Tudima
ECONOMY	1995	1996
Total GDP (Sbn)	16.7	n.a.
Reat GDP growth (%)	2.5	4.5
GDP per caput (5)	3,487	n.a.
Agriculture as % of GDP	11.6	n.a.
Retail prices (% change pa)	3.7	5.0
tnd. production (% change pa)	1.0	5.0
Unemployment (% of lab force)	16.8	16.5
Reserves minus gold (5bn)	2.0	2.8
Broad money growth (% pa)	33.0	20.0
Discount rate (% payear end)	8.5	7.0
Budget balance (% of GDP)	-0,5	-1.8
Current account balance (\$bn)	-1.5	-1.5
Exports (Son)	4.6	n.a.
imports (\$bn)	7.5	n.a.
Trade balance (\$bn)	-2.9	na
Trade partners 1995 % by value.	Exports	Imports
Italy	23.7	18.2
Germany	21,5	20.1
Siovenia	13.1	10.7
Austria	4.3	7.7

in this survey

Guide: for the traveller to emor of the National Bank

A Interview: President France Tudiman

Politics: the ruling party and elections Eastern Siavonia: the test of Serb-Croat coexistence Profile: Gen Jacques Kleir & Infrastructure: a major post-war effort Ptiva: pharmaceuticals

company quoted on London stock exchange Banking: tackling the problems inherited from ex-

& Profiles: RZB: Varteks & Foreign investment; moving towards international acceptance & Tourism: recovery await ed after the clvs war

Shipbullding: saved by

Russian orders

Leadina the wav in Croatian banking

Unit, Datastream, IMF, Nomura Research Institute,

Zagrebačka banka is Croatia's largest private bank with total asssets of \$3.2 billian and 66% of its shares in the hands of individuals and private corporate investors. It is the clear leader in international banking in Croatia and has initiated several pianeering transactions that have helped open up the country's financial markets.

- ◆ First Croatian commercial bank to receive a loan from the European Bank for Reconstruction and Development. The credit totalled DEM 56 million and was the EBRD's first private sector transaction in Croatia.
- First Croatian borrower to tap the syndicated loan market without a guarantee from the Republic of Croatia. The CHF 130 million term loan was heavily oversubscribed.
- Engaged as a joint glabal co-ardinator in the first IPO af a Croatian campany. The shares and GDRs were listed an the Landon Stock Exchange and the affering was heavily oversubscribed.
- ◆ The first and leading provider af custody services in Croatia; the bank's shareholders' funds amount to \$311 millian.
- ◆ Best bank and the undisputed market leader in Croatia (Central European awards, April 1996).

Zagrebačka banka

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■ Economy: by Anthony Robinson and Gavin Gray

Miracles take a little longer

Ministers have achieved much in recent years, but more restructuring is needed

Croatia bas built an enviable reputation for sound economic management over the last two years by sticking to the economic stabilisation plan introduced in the autumn of 1993. Thanks to tough fiscal and monetary discipline, Zagreb has been able to create a new state, build up an army. finance a war, and support a flood of refugees - while keeping inflation well within single

This "economic miracle" has been paid for by a steep decline in living standards - with the ostentatious exception of the resected "new class" of war profiteers who lounge in the pavement cafes and roar through town in expensive imported cars, mobile phone in

the new state have welghed especially heavily on the large number of Croats who lost their savings in blocked foreign exchange accounts in 1991 and had the value of other assets wiped oot by the hyperinflation that preceded the stabilisation plan.

But macroeconomic stability, paid for by high taxes, high interest rates and a tight rein on non-military spending allowed the successful introduction of a stable new national currency, the kuna, in 1994 and has attracted the attention of the international financial community.

The combination of macroeconomic rectitude and the return of a still somewhat uneasy peace has laid the foundations for the economic growth that is now in prospect. Mr Bozo Prka, the finance minlster, forecasts 5-7 per cent growth for 1996, made possible partly by a cutback in military spending. This allows a shift of resources to the reconstruction infrastructure development, including an ambitious and much-needed highway building programme.

Defence spending, officially 10 per cent of GDP but believed to be much higher, is budgeted to drop by over 15 per cent this year. Miniaters also promise tough action to cut the losses of the big formerly "socially-owned" enterprises and speed up bank restructuring.

"The war concentrated our minds on the need for privatisation, bank restructuring and a new fiscal system," says Mr Borislav Skegro, the deputy minister who has overall responsibility for economic and financial reform.

Fiscal reform will be virtually completed next year when a 22 per cent value added tax will be introduced. This should broaden the tax base by draw-ing more of the large "grey economy" into the tax-paying category. Meanwhile, successful foreign debt negotiations are also expected to facilitate

cheaper foreign borrowing. Croatia's re-entry into foreign capital markets took off in style earlier this year wheo the government raised \$160m through an offer of sbares and Global Depository Receipts in the Pliva pharmaceutical company. The issue was 20 times

The warm international response was partly a tribute to Croatia's best run and highly profitable enterprise. But it was also the first tangi-ble evidence of the "peace dividend" following last December's Dayton accords and Croatia's agreement with the Paris Club of official creditors last year for the rescheduling of \$3.4bn in official debt.

over-subscribed.

The Paris Club agreement was followed in April this year by agreement in principle with the Loodon Club of over 350 commercial bank creditors under which Croatia agreed to assume 29.5 per cent of the "joint and several liabilities" of

Continued on page 2

Foreign debt: by Gavin Gray

The way is opened up to borrowing

Settlement of debts linked to ex-Yugoslavia eases the struggle out of financial isolation

Croatla is in the final stages of arranging a settlement of its share of former Yugoslavia's \$4.7bn commercial bank debt.

If approved by the creditors, the deal will sever most of Croatia's financial links with the former state and clear the way for a new wave of foreign borrowing to finance reconstruction. Croatia has been unable to horrow abroad for most of the five years since banks thought the political risk was too high.

The fears diminished substantially during 1995 after the Croatian army's successful assault on Krajina, a region hitherto held by rebel Serbs, and after the Dayton agreement, signed in December. hrought an end to fighting in neighbouring Bosnia.

This opened the way for Croatla's first issue in the international syndicated loan market. HBOR, a government reconstruction bank, raised DM50m (\$33m) in January, The terms were harsh: HBOR must repay the loan in a mere 18 months and the interest bill is a high 275 basis points over the London interbank offered rate (Libor). This reflected in part the uncertainties about Croatia's debt hurden, a second reason for westero banks' earlier reluctance to lend. The situation became much clearer in late April when the government declared that it had reached an agreement in princlple to assume 29.5 per cent of the former Yugoslav deht. Croatia's cost of funds fell

immediately. We are now in the position to borrow at below 200 basis points over," says Mr Bozo Prka. finance minister. Croatian commercial banks, many of which had problems last year convincing western banks to confirm their letters of credit, report that short-term lines are now being offered at spreads of 150 basis points over Libor. This represents a substantial improvement on the country's position in 1993. when it was put on hold by multilateral financial institutions as punishment for its involvement in the war in Bosnia. It was not until September

granted their first loans. The government is presently negotiating a new World Bank facility to finance bank rehabilitatroubled enterprises. But the resumption of World Bank lending was not just a political decisioo. It also required a settlement on Croatia's share of former Yugoslayia's World Bank debt, which

was complicated because some

of the loans were for the fed-

eral government and could not

be linked to specific projects in

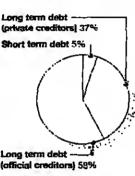
specific republics. It was not

1994 that the World Bank and

the European Bank for Recon-

struction and Development

immediately obvious what External debt



£3,948,5m at end of 1995

share of these non-allocated loans should be assumed by

In the eud, the World Bank and Croatia agreed that It would be assigned 28.49 per cent of the non-allocated loans. The same issue arose last

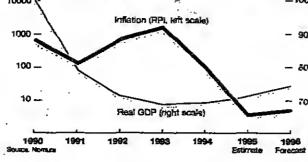
negonations about its share of former Yugoslavia's dehts to sovereign governments, a group of creditors known as the Paris Club. A settlement was reached in May in which the 28.49 per cent figure was used once more. The creditors agreed to reschedule the loans over 14 years and past due interest over five years This agreement, which was

confirmed through a series of hilateral treaties in the autumn, cleared the way for foreign export credit ageocies to provide insurance cover and guarantees for exports to the country. The hardest knot to going to be Croatia's share of former Yugoslavia's debts to commercial banks, known as the London Club debt.

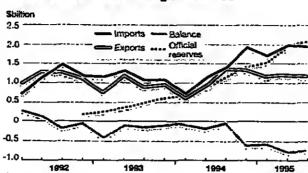
Two factors made this even more complicated to apportion than other types of debt. At Yugoslavia's last rescheduling. the 1988 New Financing Agreement (NFA), all six republics had provided a joint and several guarantee for the total debt, which meant that Croatia could have been beld liable for the entire amount.

Another problem was that the debt bad been actively traded in the secondary market and a significant portion was held hy Serb-controlled hanks and other Serb-related entities. Croatia was opposed to paying them, since it believed these banks had used former Yugoslavla's foreign currency reserves - part of which belong to Croatia, It argues - to fund these purchases,

Despite these obstacles in late April Croatia reached a Inflation Annual % change (semi-log scale) index (1990=100) 1000 -



Trade balance and foreign reserves



settlement after only to days u. negotiations with the International Co-ordinating Committee (ICC) representing the London Club of commercial banks.

It agreed to assume 29.5 per cent of the NFA deht and will issue two series of bonds. Unmatured loans will be exchanged for a 14-year bond with a three-and-a-half year grace period. Matured loans and past due interest will be repaid over 10 years.

The debt dcal must now be approved by two-thirds of the banks holding the deht and Mr Prka hopes to complete this by the end of May, with the exchange of bonds taking place in late August or September.

Serh-controlled banks, which are estimated to owo 15 per cent of the NFA, are expected to vote against the deal, but the biggest threat may come in the courts. In March, rump Yugoslavla launched a court action against Slovenia, which agreed a similar deal last June. and it has threatened to open similar proceedings against

Continued from page 1

former Yugoslavia. On this

basis Croatia's share of the

debts of former Yugoslavia

amounts to \$1.5bn, raising

total foreign debt to \$4.9bn.

roughly 25 per cent of Croatia's projected 1996 gross domestic

The finance ministry calcu-

lates that servicing foreign

debt will initially absorb a

manageable 6-8 per cent of

annual export revenues. The

debt agreements pave the way

both for renewed foreign bor-

rowing and a rating from the

International rating agencies

which should reduce future

Meanwblle, the primitive state of Croatia's Redgling

domestic capital markets

increases the urgency of tackling the inherited had debt

problems of the five hig banks.

which still account for over 70

per cent of the banking mar-

The main problem is Prl-

vredna Banka Zagreh (PBZ)

which is stuffed with non-per-

forming loans to many of Croatia's largest companies, some of which were condults for

Tackling the had dehts of

PBZ will require a political commitment to structural

reform and transparency that

remains to be proved.

For helind the debts lie the

problems of companies such as

heavily in the 1970s to build

refineries and pipelines

designed to serve the entire

Yugoslav market of 23.5m people but which have been work-

ing at a fraction of capacity for

years. INA has developed over

the years as a sprawling con-

INA, the state owned oil company, which horrowed abroad

product of around \$18bn.

State assets

"roatia, Both the Slovenian government and the ICC dismissed the action as irrelevant and Zagreb says it will proceed

If approved, Croatia's Lon-

don Club deal will lift its exter-

with its deht settlement.

nal debt from \$3.4bo to just over \$5bn. Mr Prka says this represents only 25 per cent of GDP, which can be serviced by 6-8 per cent of export earnings Once the debt deal is approved by two-thirds of the creditors. Croatia intends to launch its first issue in the Eurobond market, a \$150m-\$200m short-term offering. "We have shown our political willingness and economic ability

to repay our deht," says Mr Prka. "After the London club. we will achieve full normalisation of our relations with the financial world and gain complete access to the capital markets. Croatia will never default, because we know what would happen. We would not like to be financially isolated as we have been in the past

glomerate which alone

accounts for nearly 20 per cent

But the list of dinosaurs to

be slimmed down includes

other big employers such as

the state railways, the ship-

yards, the Croatian Electricity

company (HEP), the Sisak steel

mill and big engineering com-

panies such as Koncar and the

Djuro Djakovic tank and arma-

bas begun, as demonstrated by

a drop in industrial production

of more than 40 per cent since

1991, the closure of a few big

plants such as the highly pollu-

ting Bakar coking plant near

Rijeka and retrenchment at the

shipyards and several other

decisions are needed if suffi-

cient resources are to be freed

up for investment in potential

growth sectors including tour-

ism, a sector that needs big

investment and a much more

competitive exchange rate if it

is to fulfil its potential as the economy's top hard currency

Faster growth is needed above all to provide jobs for

the 150,000 soldiers helng

demobilised and to cut a 19 per

cent unemployment rate. The

danger is that unemployment

could rise further unless the private sector, which now accounts for approximately 50 per cent of both output and

employment, obtains better

access to cheaper credit. Only then will the private sector be

able to take up the slack that has been caused by the slim-

ming down of the public sector

and the impact of war and the

loss of the unified Yugoslav

But privale bankers believe further politically difficult

industrial complexes.

The process of restructuring

of Croatia's GDP.

■ Business traveller's guide to Zagreb: by Gavin Gray and Laura Silber

rmal life returns

Zagreb presents fewer practical problems than many other east European cities

A trip tu Zagreh, the capital of Croatia, should be a nice surprise for travellers whose impressions of the country were formed from television footage of the war in 1991. It is a pleasant city where life seems to be running normally against the backdrop of some fine Hapshurg architecture. city was last hombed in May 1985 and further attacks are unlikely.

It is less pleasant that the war lifted prices well above the level in other east European capitals. A taxi from Pleso. Zagreb's airport, to the city centre can cost 250 kunas 1\$45) for a 30-minute ride. A glass of Croatian heer on Tkalciceva street, a popular drinking spot near the old town, costs 15 kunas. The biggest expense is international telephone calls. If you are staying in a hotel, it is easy to run up a hill close to the cost of the room itself.

Zagreb has three hotels for husiness travellers. Most still stay at the Intercontinental (Telephone:385 t 455 34t1), the hotel of choice for the floating army of visiting Nato and IFOR officials. But first impressions are marred by its ugly Lego-hrick style facade. Its main rival is the Hotel Sheraton (Tel:385 1 455 3535), lt opened last year but some facilities are not operating yet. The Hotel Esplanade (Tel:385 1 456 6666), has the best location of the three and retains a certain Hapshurg grandeur. The three botels all charge about DM300 per night for a single

room (Croatians invariably quote prices and large sums of money in D-Marks rather than dollars). All three hotels are five to 10 minutes walk from Jelacic square, with the equestrian statue of Duke Josip Jelacic. a Croatian national hero. Above the square, rises the old town (gornji grad), with winding, cohhled streets and baroque houses and many of the city's official buildings including parliament and the cathedral, which is being repaired. This part of town is also home to some of the city's

more attractive restaurants. including Pod Grickim Topom ttel:430 690), on Zakmardijeve stuhe close to the funicular railway. Zagreh also has some good fish restaurants, including the hustling Karaka on Andrija Hebrang street (tel:442 0751. A fine place for lunch or dinner, especially in summer, is Sestinski Lagvic (tel 426 466), a restaurant serving typical Croatian food. It is a 20-minute drive into the wooded hills above the city with splendid views from the halcony and

folk music hy night. Zagreb, and Croatla in general, present business travellers with fewer practical problems than many other east European cittes. EU citizens do not need visas, while US citizens can obtain them on the border. There is no problem changing foreign currency. Credit cards, apart from Visa are widely accepted and holders of Mastercard and Cirrus cards can withdraw cash from Zagrebacka Banka ATMs.

Many Croats speak foreign languages. German is widely spokeo, because of the large Croat population in Germany, and Italian is spoken in the coastal regions. Most politicians and business people are

applies to Zagreb's waiters and har staff, who have become accustomed to serving the city's large contingent of UN

and IFOR personnel Despite all this. Zagreb can become oppressive if you are staying for mure than a couple of days. Security is tight and you need to show your passport to get into most government huildings and companies. There are many policemen and

soldiers on the streets. If it all becomes too much for you, take a trip out of town, Life is much more relaxed in Varazdin, 60 kilometres to the east, which is a cosy town with architecture rivalling Zagreh's. If you have a weekend free, Croatia's 1.000 km of spectacular Adriatic coastline dotted with more than a thousand islands has much to offer. On the Istrian peninsular, a fourhour drive from Zagreb, the town of Rovini is beautiful. History buffs will love Pula, on the southern tip of Istria, which is an old Roman town with an amphicheatre.

Transport is a problem. Car hire starts from \$180 a day and many roads are winding single tracks. Croatian Airlines (Tel:385 t 455 1244) flies to sev eral cities including Split, tla Dalmatian port, and Duhrov. nik. Foreigners are charged more than Croats and the cost can seem exorbitant for the short distances involved.

If you cannot leave Zagreb, there are plenty of leisure opportunities. The Mimara museum displays the art rollection of the late Ante Topic, On the eastern outskirts lies Maksimir park with a zoo and some scenle walks. Sports fanatics should head to Jarun, a lake 30 minutes' drive south west of the centre.

PROFILE

A stabilising factor

foreign currency deposits

Mr Marko Skreb, the recently appointed governor of the National Bank of Croatia, is one of the main architects of Croatla's stabilisation

programme, Ironically, it has been so successful that he is now under growing pressure to stop the currency appreclating further as

ceotral bank reserves have risen strongly from virtually zero five years ago to \$1.9bn. He is under pressure from business lobbles, especially the debt-ridden publicly owned sector, to reduce the very high commercial bank leoding rales. These range from 15-23 per cent annually for the larger companies to a

last year was only 3.5 per cent on an annual basis. Capital inflows are being partially sterilised by forcing commercial banks to keep

over 50 per ceot of their

crippling 3-5 per cent monthly

with foreign banks. But this has not prevented a de facto revaluation of the kuna over the last six months which has discouraged exports and fuelled a sharp rise in imports. Last year the current account dipped into a \$1.71bn deficit, nearly 10 per cent of GDP, despite a \$612m surplus in services, mainly tourism. The deficit reflected a 47 per cent surge in imports last year which pushed the trade account \$2.87bn into the red. compared with a \$970m deficit

in 1994. Exports, by contrast.

predeccessor, is not a member

rose only 8.7 per cent. The trend cootinues into 1996. Faced with mounting evidence of an over-valued for small enterprises. Inflation currency Mr Skreb accepts what be calls "the used to avold currency appreciatioo due to strong capital inflows." But the tough young technocrat who, unlike his

determined to resist pressures to print more money or lower interest rates. "The real problem is not a physical sbortage of kuna, nor an over-valued exchange rate. but the slow progress in cutting enterprise costs and the delays in restructuring the bad-loan portfolios of the big state-owned banks," he says. He is scathing about the managers of blg state-owned enterprises who do not know their real costs of production or how to cut out loss-making sectors bul who constantly

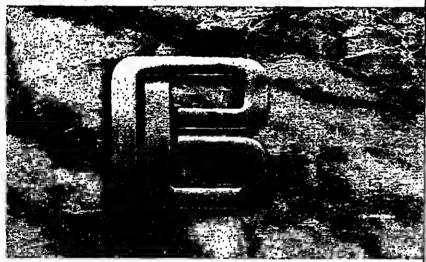
of the ruling party, remains

Mr Skreb is a strong advocate of greater transparency in the banking system and radical reform of the current social security syslem which doubles employers' wage costs.

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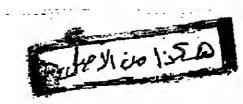


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PROFILE President Franjo Tudimen

The true believer

President Franjo Tudiman is a true believer whose dream

came true.

For decades be nurtured the idee that he would restore the independence which Croatia lost a thousand years ago. Today the 74-year-old former communist general turned jalled nationalist dissident sits in a presidential palace built by Tito in the wooded hills above Zagreh surrounded by the symbols of his new state. Behind his desk stands

Crostia's obiquitous red and white chequer-board flag oo its red, white and hine background. On the wall hangs a huge painting of King Tomislav, the legendary founder of the first Croatian state. The king is on homage of his loyal subjects.

Six years ago the forceful. silver-haired leader steered his party, the Crostian Democratic Union (HDZ), to a landslide victory in the first free elections. The tide of popular support that swept him to power was a mirror image of the fervour whipped up lo Serbia hy his ounterpart, President Slobodan Milosevic, another former high-ranking communist official to wran himself in the national flag.

But there is a big difference between the two men. For Mr Tudiman, securing the independence of Croatia was a matter of conviction. For Mr Milosevic, as subsequent events have proved, Greater Serb Nationalism was merely a means to gain and retain power. After the traums of 1991, when rebel Serbs occupied 30 per cent of the territory, Mr Tudjman steadily solidated his position. He backed the creation of a modern army in violation of a UN-imposed arms embargo but with financial support from the 2.5m strong Croatian diaspora, a blind eye from the EU and the help of retired US

generals, In 1993 Mr Tudiman went to war against the Moslems to carve out a Croatian mini-state in Bosnia. By the end of the year, however, Washington gave Mr Tudjman a simple choice: either stop the war against the Moslems and receive US backing for the recovery of Serb-held lands, or face sanctions and isolation. He chose to side with

Washington, The US link strengthened after the Washington accords of 1994 gave up his original plan to carve up Bosnia with Mr Milosevic and agreed to Washington's plans for a Croat-Moslem federation. From then on Washington was on Mr Tudjman's side, and the strategic balance decisively changed.
A poster plastered

throughout Croatia immediately after the army's re-conquest of Krajina last August showed Mr Tudiman, his arms' raised in victory with the slogan, "the man who wins". Strategic road and rail links between central Croatia and the Adriatic ports were quickly re-opened and a few months later Mr Tudjman led



Bosnia-Herzegovina," he

were expelled from their

relations were killed, could

not be controlled after the

liberation, even though we

ordered, stopped and even

As for the expulsion of

tried those who carried out

crimes. There were even court

Serbs, Mr Tudiman added "the

who took part in the uprising,

collectively felt so guilty that

"The world is now accusing

Croatia for thet. But why did

the Serbs also leave Sarajevo

when Europe, the US and Nato were all there? Why did the

Serbs also leave the land that

their dead which is horrible. It

is because the Serbs in Croatia

treated it as their colony and

in Bosnia it was the same

colonialists, like the French

Several times Mr Tudiman

left Algeria," be added.

repeated his helief that

Balkans, but of central

co-operation between

Croatia is not part of the

Europe. Future relations

sovereign states, he adds,

explains that normalisation

between Zagreb and Belgrade

is necessary for what he calls

the "Scandinavisation" of the

Croats, the higgest nations in

this region, is as important as

France and Germany after the

consolidation of peace between

these two countries made the

central Europe than with their

former countrymen, although

recent history tells a different

interlinked for centuries oow

region. "Normalisation

between the Serbs and the

the reconciliation between

second world war. The

creation of the European

In the same breath.

however, he repeats that

Croats share more with

story - of communities

The Croatian leader is

Moslems, whom he sees as ethnic Croats who succumbed

to the Turkish invaders five

hundred years ago. But with continuing American support

siems he says he supports

federation which was allocated

hinged largely on Zagreb's co-operation with the Bosnian

Bosnia-Hercegovina hy the

civilisational nature of the

the Moslem-Croatian

Dayton agreements. "In spite of the deep,

51 per cent of

anable to disguise his

antipathy to Bosnia'e

torn apart by war.

Union possible," he added.

between the former republics

of Yugoslavia should be based

on the Scandinavian model of

thing. They left like

was returning to Moslem

control? They even dug up

Croatian government and I

personally, appealed to all

those (Serbs) who did not

commit crimes, even those

they abandoned western

to remain. But they

Slavonia and Knin."

homes, whose nearest

martials," he said.

recalls. "These people, who

Franjo Tudimen: 'restored Crostle's long-lost independence'

his party to another electoral victory. But he fell short of winning the two thirds majority needed to write stronger presidential powers

into the constitution. Having fought four elections over the last six years while battling against what he describes as "Yugo-communist Serbian aggression". Mr Tudjman was furious when European foreign ministers questioned Croatia's democratic credentials earlier this month and postnoned indefinitely Croatia's entry into the European Council.

His anger reflected barely disguised contempt at Europe's role in the Balkans. Disunited Europe was unable to solve the Yagoslav and Bosnian crises. It is united only in trying to discredit the Dayton agreement because that was reached under the stewardship of the US. They want to discredit Dayton at the expense of Croatia. But wa will not become anyone's colony," he added.

Citing 21 reservations about Croatia's record in the field of human rights and press freedom, European foreign ministers delivered what Mr Tudjman sees as an insult to the democratic record of the new state. Instead of considering the steps needed to redress European concerns, however, he is bluntly unapologetic. The independent media "criticises everything that Croatia has succeeded in creating. That is not democracy; it is anarchy," he

But he is evasive and defensive when tackled on the central criticism of his regime - that it sanctioned the murder of hundreds of mainly aged Serbs who remained in Kratina after the Croatian army re-occupation, and destroyed their homes to make sure they oever returned to where they had lived for centuries. "More than 400.000 Croats, Hungarians, Czech and Ruthenes, all non-Serbs, were expelled during the aggression hy the Serb and Yugo-communist army to conquer Croat territory and make it part of Greater Serbia. Many Croats and Moslems were also expelled from

Media: by Gavin Gray and Laura Silber

The door is shutting on criticism

The government is fighting a dour battle against the media as intently as it waged war

The last two issues of Feral Tribune, the independent satirical weekly, have featured President Franjo Tudiman prominently on the front page. in the first edition, a doctored photo portrayed him as a jovial clown with a hulbous red nose, while a photomontage in the next issue showed the metamorphosis of the late Josip Brog Tito, the founder of communist Yugoslavia into President Tudiman himself.

From this you might induce that Croatia enjoys a very free press. But the approach of the ruling Croatian Democratic Unioo (HDZ) is oearly as aothoritarian as the regime it

Even though the war is over, the government is still fighting a flerce battle against the country's few lodependent newspapers and retains an iroo grip over the etate-owned

Croatian state television is Mr Tudiman'e personal mouthpiece. The evening oews, hy far the most influential programme, devotes considerable time to the President's daily eogagements regardlese of their importance. There is scarce mention of the opposi-

The HDZ'e media monopoly reached its zenith during the election campaign last October. So enthusiastic was the promotion of the ruling party and Mr Tudiman, its leader, that television viewers were given the impression that he himself was running for office even though his term does oot expire until

Speaking under a picture of Mr Tudiman, whom he calls the "Croatian Bismarck," Mr Nenad Ivankovic, editor of Vjesnik, the country's main state-run daily, says the picture there is changing. It has reverted to its old broadsheet format and has even published articles by opposition politi-

"There are some limits that I would like to cross, but we have to consider the political environment we operate in." says Mr Ivankovic, who claim that the press' appearance of being under state control is mainly because of self-censor-But last month, Mr lvan-

kovic published a document purporting to reveal that Mr Ivan Zvonimir Cleak, Croatia's most outspoken human rights campaigner, had been an informant for the Yugoslav secret

Mr Cicak, whose prosecution at the hands of the Communist regime gives him impeccable nationalist credentials, including three years in prisoo from the age of 24, is virtually a lona voice of public protest against the hundreds of murders of Serb civilians, and the looting and torching of Serh homes during the Croatian army's offensive in Krajina last August.

In spite of a campaign of continued harassment, however, a handful of independent media. including Radio 101 in Zagreb, have kept journalism alive in Creatia.

Last month, under a new press law, Croatia's poblic prosecutor filed three suits against Feral Trihune for destroying the statesmanlike quality and personal integrity" of President Tudiman. Feral is Croatla'a equivalent to Britain's Private Eye, but also runs serious political analysis and eneds light on subjects which the most of the rest of the press ignores or under-

plays.
The fate of Novi List from the Adriatic port of Rijeka, the higgest independent regional paper, has also become uncertain. With a daily circulation of 40,000, it is small fry even hy Croatian standards, but it has gained popularity among the elite for the accuracy and independence of its reporting. The Croatian government

has twice challenged the priva-tisation of Novi List in an

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attempt to assert cootrol. In April, the government launched a more subtle attack when the ministry of finance accused the paper of failing to pay import duties on a printing press and evading sales taxes. The printing press was a gift from the Italian government and oot subject to such taxes. Novi List also uses the press to print tha Italian language newspaper, La Voce del Popolo which serves the region's Italian minority and is the reason for the Italian government's donation. The affair also risks

damaging relations with Italy. Mr Miljenko Marin, a journalist on the paper, says the government's action is an attempt to muzzle Novi List which opens its columns to all political and social view points in an area where the HDZ gets little more than 20 per cent of the vote.

The vigour with which the government has pursued the

case against Novi List and libel actions against several other popers have surprised Croatian journalists eince control over television already gives the regime power to shape public opinion. The fact is that Croatia does not yet have the preconditions for a free press. There is oo private oational television station and there is no independent national newspaper," explains Mr Davor But-kovic, editor-in-chief of Globus, a more mainstream Zagrehhased weekly, which was founded in 1990.

Mr Tudiman however says the public welcomed legal action against reporters whom he castigates as "ideologues of the Yugoslav communist regime, the children of Yugoslav Army officers, and the offspring of mixed Serbian mar-

"I get letters, from ordinary citizens to university professors. They ask me: 'Mr Presi-



Ivan Cleak a most outspoken human rights campaigner

dent, why does the state allow of Croatia?" he says. A recalcitrant Mr Tudiman dismissed as "completely unfounded and unacceptable'

opposition ie united only in

opposition to him." said a west-

"The HDZ'e further popular

eroeion ie uoetoppahle," believes Mr Stipe Mesic, head

of the Croatian Independent

Democratics, who eplit off from

the HDZ in protest against Mr

Tudiman's moves to carve out

a Croatian ethnic state in Bos-

EU and US concerns about such stupidity and humiliation of Croatia?" he says.

Croatia'e suppression of the freedom of press. "It is not freedom of the press. It is not democracy, it is anarchy," he

E Politics: by Laura Silber

No victory at the polls It earlier lost control of Osiin Zagreb, so he complains the

jek, the regional capital of east-

The voting pattern euggested

that, with war over and the

peaceful re-integration of east-

ern Slavonia imminent, the

political climate was in the

Tired of seeing a handful of

people, mostly with links to

the ruling party, get rich off

the war while they got poor,

urhan voters, especially the

inhabitants of Zagreb, no lon-

ger rallied hlindly behind Mr

showed they can live without a

big boss," says Mr lvica Racan,

head of the Party of Demo-

cratic Changes, a left-of-ceotre

party led by reformed former

The people of Zagreh

process of changing.

ern Slavonia.

Tudtman.

The voting pattern suggested that, with war over, the political climate was changing

After the Croatiao ermy crushed the rebel Serbs in Krajina last August, President Franjo Tudiman called soap

elections. He was convinced his party would capitalise royally on the victory.

But the ruling Croatian Democratic Unioo (HDZ) fell far short of the two thirds majority it was seeking in the Sahor the Croatian parliament, and lost cootrol over the biggest

towns and cities. The HDZ spearheaded Crostia's drive for independence and was re-confirmed as hy far the largest and most popular party.

It won 46 per cent of the votes and 75 seats in the 127 seat parliament.

But it felled to capture a majority in the capital, Zagreb, or in the Adriatic cities of Rijeka and Split

"But it will take some time for this view to spread to the rural areas around Zagreh because of the continuing wide gan between town and coun-

try," he edded. Mr Tudjman's instinct was to refuse to bow to the will of the Zagreb electorate. "He simply cannot accept

that the opposition was elected

about the harassment and killing of Serb civilians and the torching of thousands of Serb homes after Operation Storm. "The opposition would have

been politically dead had it

spoken out against the viola-"But if dozens of Serb homes had been destroyed, they could have heen dismissed as isolated incideots. The destruc-

The HDZ is a movement not a political party, it includes a now says. far wider spectrum of viewe than would be contained in a oow demanding a more effecoormal political party. With the country. such a wide range of groups

across the political spectrum it will fall apart," Mr Mesic pre-Tudiman and the HDZ pros-"While a third of Croatia pered.

remained in the hands of Serb rebels the HDZ, with its control of the media, was able to define the country's political parameters.

"Any protest against official policy was dismissed as unpatriotic, tantamount to national betrayal," be added. It was this atmosphere

which explains in part why the oppositioo remained silent

tion of 20,000 homes meant it was official policy," Mr Mesic The fractious opposition is

tive role in the political life of "Croatia is finally emerging from the war crisis in which

"But the HDZ can only continue to exist within an autocratic structure," Mr Racan

says.
"The question is whether such a movement can transform itself into a party which can tolerate other parties and will also be prepared to give up power if it loses the elections. That is the hig question," he

Patently

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differences between Crosts and Moslems, the federation should survive because of the strategic, geopolitical link between Croatia and Bosnia-Herzegovina," he says. Laura Silber and Anthony Robinson fermented dairy products, etc.

At the heart of the crucial matter

The challenge is whether next year there can be re-integration without violence

The character of the Croatian state and the tone of the crucial Croat-Serb relationship in the 21st century could well he decided by the outcome of current efforts to achieve the peaceful re-integration of Serbheld eastern Slavonia into Croatia.

The manner of the region's integration will test Croatia's commitment to co-existence between Serbs and Croats in this historically mixed region and the ability of General Jacques Klein, the American general who heads the 4,500 strong UN Transitional Authority of Eastero Slavonia (UNTAES), to facilitate reconciliation against daunting odds.

Eastern Slavonia, and the neighbouring regions of Barania and western Srijem, occupies a fertile strip of rich blackearth soil and nodding oil don-

keys at the north eastern tip of Croatia. The region is dotted with small towns and onceprosperous villages famous for their wine, wheat and timber. It used to be home to a patchwork of Croatian, Serb, Hungarian, German, Jewish

and other communities. But the multi-ethnic communities which prospered under the benign autocracy of the Hapshurg emperors and their Hungarian partners, have suffered badly in the twentieth century. The Jews were killed by the Nazi-supported Croatian Ustase regime in 1941. Most of the Germans and many Hun-garians were expelled after the war. This area then saw the bloodiest conflicts during the Serb-Croat war of 1991 when local Serbs rebelled against Croatian independence, backed by the Yugoslav army.

Nearly five years ago Vukovar, a sleepy baroque town nestling in a broad bend of the tree-lined river Danube, was devastated in a three month bombardment from long range Yugoslav army artillery and tank fire followed by fierce hand-to-hand fighting. Today the town looks like the ruins of Pompeii while earthwork tank emplacements still stick out of the fields of growing wheat in the surrounding countryside. By now nature has softened the destruction. Wisteria creeps up the walls and wild flowers bloom amidst the rubhle and collapsed roofs.

But the city's former Croat inbabitants - once slightly more numerous than the Serbs - remain refugees and Vukovar. like most of eastern Slavonia is still under the control of the local Serbs whose rebellion was supported by Belgrade.

Until last year, the widespread assumption was that eastero Slavonia would only return to Croatian control after a tough fight. Such a hattle seemed imminent after the Croatian army's blitzkrieg victories last year against the demoralised Serbs. But after recovering western Slavonia and Krajina by force, US pressure dissuaded President Tudjman. At Dayton both the Serhian and Croatian leaders agreed that re-integration

Today. Vukovar can still only be approached from the west by UN vehicles or with special permission down a narrow country road between ruined villages and fields. Russian UN troops man roadblocks interposed hetween Croatian and local Serb militia posts.

But eastern Slavonia is now scheduled to be fully re-integrated into Croatia next year and refugees are to be allowed back to their homes. The big question mark is whether all this can be achieved without violence, without another mass exodus and with respect for the human and civil rights of local Serbs and the many thousand more Serh refugees from elsewhere in Croatia and Bos-

nia who currently live here.

President Tudjman swears that he is fully behind peaceful re-integration and points to the re-opening of road, rail, pipeline and other links between Croatia and Serbia as evidence of a return to more normal relations between the two former warring states which forms the wider backdrop to the Slavoian re-integration question. But asked whether he will personally go to the area and put his personal authority behind the reconciliation effort backed by General Klein and UNTAES and be

retreats into generalities. The precedents set by five years of war and ethnic purging do not induce confidence however. Thousands of Croats who lost their farms and homes want them back. Parts of the region, especially the fertile Barania area around Beli Manastir escaped great damage and now have 25,000 more inhabitants than before the war. The "lucky" refugees live in bouses from which they will be unceremoniously expelled once their rightful Croat owners are allowed to

■ Infrastructure: by Gavin Gray

the celtars of bombed out bouses or in patched up blocks of flats half destroyed by the bomhardment. All face a terrible dilemma - wbether to pack up their miserable belongings and move to an uncertain fate as unwelcome refugees in an impoverished Serbia or the Serhian part of Bosnia, or stay and become subject to whatever conditions the returning Croatian authorities impose

upon them. Mr Branimir Glavas is one of the key figures who will determine the outcome. He was a founder of the ruling Croatian Democratic Union (HDZ) and led resistance to the armyhacked revolt of the region's Serbs in 1991. Originally from Hercegovina, a stronghold of Croatian nationalism, he is close to President Tudiman and represents him as the Zupan, or governor, based in Osijek, the regional capital of

eastern Slavonia. "The Serbs can remain, provided they respect the constitution, ohey the laws and contribute to huilding up the new state like any other citizen. Those who can't had better pack up their things and leave. We will not tolerate a new reheilion," he says. "We'll forgive them, but we won't forget," he adds. To make sure no one forgets he intends to place a hig plaque on the main wall of the Zupanija, or governor's palace, on May 10, the anniversary of Croatian independence, The plaque will commemorate the heroic defence of this ancient city, the 100,000 Serb

independence," he says. Asked what impact this gesture will have on the prospects for peace and reconcillation. Mr Glavas, who some see as a possible subject for trial hy the

shells which fell on it and the

lives of thousands of Croats

sacrificed in the struggle for

war crimes tribunal in The Hague for his role during the 1991 fighting, shrugs as be answers. "No one will harm a hair on their heads. But let them he humiliated for a while and let their children learn of their mistakes," he says.

But not all think like Mr Glavas. Last autumn Osijek, and many other Croatian towns. including the capital Zagreb. rejected the HDZ mayoral candidates in local elections and voted for opposition candidates. "There is a hig division between town and countryside. In Osijek we elected a liberal mayor, but the countryside voted solidly for the HDZ. partly because the Zupan paid close attention to the rural areas and built schools and hospitals in previously neglected areas." says Mr Dario Topic, editor of Glas Sla-

vonije,the local paper.

"Now that the war is over people just want to get back to their homes and farms. This puts tremendous pressure on the politicians," he added.

There are also big differences in outlook between the older and younger generations. "The young want their compact discs and their computers and want to be plugged into a normal, modern life, This has always been an ethnically and culturally mixed area. The young want Osijek to enter Europe as a multi-ethnic community. The HDZ wants to take us into Europe as we are now." a young reporter added.

across the beavily guarded dividing line his Serb counterpart in the local Vukovar radio station expects that he and his family and most other Serhs will leave when the time comes. "I'll stay uptil the last minute. But I don't want to accept their documents. I'm sure that in the end I. too, will leave," he concludes

General Jacques Klein

Fast-talking **US** general

fast-talking, avuncular man who exudes tough-minded goodwill and offers many practical suggestions for improving intra-community relations, seems an inspired choice to lead the UN team in eastero Slavonia. A political general who spent much of his career in the state department. he commands his mainly Russian, Belgian, Pakistani and Jordanian UN force from a white painted container city huilt on the site of a former Yugoslav army base amid the ritins of Vukovar.

Over the last few months he has managed to gain the respect of most of the main participants on both sides. This is partly a testament to his commitment and drive, but also a reflection of his ability to understand the primeval forces and fears unleashed by this struggle for land and mastery. Surrounded by a close entourage of US security men. Gen Klein in his rumpled suit is clearly an American general commanding a

nominally UN operation. He describes himself as "an Alsatian who speaks with an American accent" as he stems from Alsace, once a similarly bitterly contested strip of land between France and Germany hut now a distinctive. multilingual but integral part of France. It has been transformed from casus belli to a symbol of the Franco-German reconciliatinn which forms the bedrock of post-war moves towards European unity. Gen Klein's task is to try and pull off a similar miracle in eastern

"As of January 15 this becomes de jure Croatia. It's our task to re-integrate eastern Slavonia peacefully into the Croatian state." be says. People here suffer from a great sense of malaise, claustrophobla and isolation," be adds. "This is an area plagued by mosquitoes which haven't been sprayed for five years. But when I convened a meeting of both sides, the main sticking point was the registration of the planes which would spray on both sides of the border," he recalls.

Gen Klein: his origins are a symbol ol his task for the UN

the fact that the Serbs are starting to discuss concrete detailed issues and not just generalised fears. "I called a meeting of 20 local mayors. Their big concern was whether the Croatian authorities would recognise the local school certificates." But school certificates pale in significance heside the fundamental issues of security and policing, of justice and the courts and whether pension and other payments will be honoured once Zagreb re-imposes its authority. "The Croats have agreed that 40 per cent of civil servants will be Serbs. We have also drawn up a roster with 12,000 names and addresses of people eligible for a kuna pension and we are taking a list of 1,071 Serb policemen to Zagreb. There they'll be vetted and those who pass will become the transition

police," he says. "The international community is here and watching. I tell people we're here to protect your life, wealth and dignity. I don't know how many will stay. But I notice that the peasants have planted their fields, and peasants aren't stupid. They don't sow if they don't expect

Anthony Robinson and Laura

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War damage costs westwards to the port of

Zagreb's task also involves catching up with the effects of 50 years of socialist neglect

The task of bullding new infrastructure and repairing damage sustained during the war in 1991 is one of Croatia's top priorities for the rest of the decade. With defence expenditure on the decline, the government will lift spending on reconstruction to \$300m this year and \$500m in 1997. But it will be a long haul. "Reconstruction will take at least 10 years," says Mr Jure Radic, deputy prime minister with

responsibility for this area. According to government estimates, Croatia sustained \$27.1bn of direct damage during the war. Some 135,000 homes and apartments were destroyed along with more than 100 bridges and 200 churches. Large factories were bombed, including the iron and steel works in Sisak and the Djuro Djakovic engineering plant in Slavonski Brod.

One third of Croatian territory was beld by rebel Serbs, who laid mines on part of this land, preventing the resumption of farming even today. But the true cost of the war was much higher if lost industrial production and revenues from tourism are taken into account. Mr Radic claims it was more than \$50bn.

The government is half way through a bouse huilding programme and 50,000 homes should he repaired or built from scratch by the end of 1997. At the height of the war, Croatia had 650,000 refugees

and displaced people, many of whom were housed in tourist centres. "Fifty thousand refugees are still in botels, but most of them should be rehoused this year." says Mr

But Zagreh's task also involves catching up with the effects of 50 years of neglect during socialism, a time when resources where diverted to Yugoslavia's southern republics. The road network is partlcularly poor. A motorway runs east from Zagreh towards Belgrade and a second short stretch to the western town of Karlovac, hut most Croatian cities are connected by winding, single-lane roads.

The government plans to build 2,000km of new motorways and fast roads and hopes to attract commercial finance for this. Last year, it awarded a concession to French developer Bouygues to build and operate a toll road in the Istrian peninsular and a second tender has been launched for a concession to construct a motorway running along the Dalmatian

The most controversial project is the planned motorway between Zagreh and Split, the second city, a project that was first envisaged in 1971. The government's plan to run the motorway through Bthac, in Bosnia, and the Croattan town of Knin has come under fierce criticism at home. Croatian nationalists would like the route to extend further into the predominantly Croat region of Hercegovina, while the opposition says the motorway should

be huilt only on Croatian soil. The fourth new motorway under discussion, an extension of the Zagreb-Karlovac route

He draws some comfort from

est port, servicing 6.5m tonnes of freight in 1989, but has suffered from competition with the nearby Slovenian port of Koper, which has better road links. Last year, only 3.3m tonnes of freight went through Rijeka, although Mr Bojan Hlaca, deputy director of the port, believes newly introduced legislation to privatise port services will help lift efficiency

Rijeka, is particularly impor-

tant for the country's shipping

Rijeka was Yugoslavia's larg-

and transport industries.

Rijeka's greatest asset is its deep water facility in Bakar, which can take vessels of up to 170,000 tonnes. The port's development plans include opening new container facilities in the westero port and opening a free zone and refrigerated warehouses at Bakar.

At Omisalj, near Rijeka, is a terminal for the Adriatic oil pipeline (JANAF) which runs east to Sisak and has connections to Slovenia. Hungary, Slovakia and Serbia. Built in the late 1970s, the pipeline's annual throughput capacity is 20m tonnes, with a maximum structural capacity of 34m tonnes. JANAF ceased operating during the war because part of its length fell into rebel Serb hands, but Croatta took control of this in August and the link with Serbia re-opened early this month. Some 1.5m tonnes of crude have been

Exports

Slavonia.

EU & Cither developed Ex-Yugostovian Exesten % of total exports

shipped so far and a total of 5m tonnes is expected by the end of the year.

Although the state will play an important role in the development of JANAF and Croatia's overall rehuilding programme. Mr Radic believes the private sector will also be crucial. HBOR, a state development bank, has been set up to channel credits to entrepreneurs - often at subsidised rates - and Mr Radic expects it to disburse \$100m this year. The bank will play a key role in one of the most crucial parts of the restructuring programme: persuading Croats to move to the formerly Serb-held areas, where the infrastructure is poor and thousands of

houses were destroyed by the

Croatian army.

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Model for central Europe

Its competitive strength as a drug company lies in a strong tradition of R&D and training

Croatia's leading politicians bend over backwards to deny the Balkan identity of their country, while cheerfully engaging to the kind of politi-cal intrigues which have made Balkan politics a byword for

devious complexity.

But a handful of sophisticated managers and bankers have managed to introduce "western" standards of transparency ond efficiency into this hitherto unpromising environment and have emerged as role models for the prosperous central European future which many Croats expect from independence.

The main icon of this shining future is Pliva, the Zagrebbased pharmaceutical company which in April 1996 became the first east European industrial company to be quoted on the London stock exchange. This followed the successful sale of 31 per cent of the company's shares by the government and the issuance of Global Depositary Receipts (GDRs) as part of a complex financial operation which has transformed the formerly 84 per cent governmentowned company Into a publicly quoted and mainly privatelyowned one.

Communications are a special

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The two key participants in oo operation facilitated hy Union Bank of Switzerland (UBS) and the European Bank for Reconstruction and Development (EBRD) were Mr Zeljko Covic, the 43-year-old president of the Pliva management board and Mr Franjo Lukovic, the immensely tall and thoughtful president of the management board of Zagrebacka Banka. Zagrebacka is both the company's principal hanker and owner of nearly ten per cent of Pliva's shares. (The EBRD holds a further 11 per cent.)
For Mr Covic the secret of

Pliva's pre-eminence in Croatia and its ability to compete against its central European and multinational drug company competitors lies in its strong tradition of research and development and its commitment to training and education. Current research is focused on five main long-term projects and 40 promising science students have been recrulted at Croatian universities and encouraged to specialise in areas of interest to the

The most profitable fruit of

ion stock Listing Ce PLHA's i Pfive; the first east European industrial company to be quoted on the London stock exchange

and patenting in 1982 of a powerful new antibiotic called Azithromycin. It is now widely used for treating respiratory and some sexually transmitted

In 1986, Pliva made a licence ogreemeot with Pfizer under which the US pharmaceutical company markets the drug in the US, west European and some other markets under the brand name Zithromax.

Global sales from Azithromy cin alone are expected to reach \$1bn by 1998 from \$400m in 1995. Income from the licence agreement and bulk sales of the drug to Pfizer lies at the heart of Pliva's strong cash flow. But over the last thirty years, the Zagreb-based company has olso built up a strong working relationship with 19 other western pharmaceutical companies whose products It makes under licence for sale domestically and throughout the former Soviet bloc where Pliva has o network of sales outlets and connections.

The company also sells bulk chemicals to west European markets and makes animal health products, agrochemicals, cosmetics and some baby foods and other processed food-

Last year exports accounted for 42 per cent of the compa-ny's \$365m sales, while total income was boosted by a further \$34m in royalty payments. Puture export growth is expected mainly from markets in the former Comecon area and China.

To keep up with rapid growth in sales of its own drugs and those produced under licence from western companies Pliva is currently investing Ecu95m in a new

kets throughout cast and central Europe as Sumamed. The new plant has been partially linanced by an Ecu-lem loan from the EBRD.

Pliva's strong cash flow and access to foreign banks and capital markets makes it virtually unique in a country where bank interest rates of 25-30 per cent make borrowing and investment prohibitively expensive for most Croatlan companies.

"Now foreign banks are lining up to olfer finance. Two years ago, it was a very different story bowever." Mr Covic recalls, "But we expect to be able to finance most of our development over the next five years from cash flow and our own Internal capital resources," he adds.

In a general business environment tainted with political cronyism and war related racketeering, Pliva's financial independence and strong international links demand an ethical approach to husiness which percolates through to its suppliers and would-be imitators.

"We've had no scandals, we make good products, insist on ethical advertising and bring a little International culture to the domestic scene," Mr Covic

As for management style, "I make sure that everyone says his plece during brainstorming sessions. But once we've reached a decision that is it. We Croatians like to discuss everything a hundred timea. But in this company there is no democracy in implementation. Speedy reactions and ·rapid decisions are essential to keep ahead of the competition," he adds.

It was not always like this. resources was the discovery Azithromycin which Pliva mar- tle, while competitors such as

Banking: by Anthony Robinson

A debt-ridden inheritance

Gress domestic product

The system's main characteristic is the high proportion of non-performing assets

High interest rates, rising inter-enterprise indebtedness and the still largely unresolved bad debt problem of some of the country's largest and oldest banks reflect the negative financial legacy of Croatia's socialist past and the breakup of Yucoslavia.

Tackling the inherited problems caused by the incestuous nature of the former links belween the socialist banks and the enterprises which both owned and borrowed from them is now widely recognised as a pre-condition for future economic development.

Much has already been achieved. A two-tier banking system has been in effect since 1991 when the National Bank of Croatia was reconstituted as an independent central bank, The new currency, the kuna, introduced in 1994, has appreciated strongly in recent months in response to what many regard as an over-restrictive monetary policy.

But the main characteristic

Krka in Slovenia and Gedeon

Richter in Hungary built up their markets and improved

their products," he concedes.

But we still have an edge in

this region because we are the

only company which produces its own chemicals and has

such valuable patents. Azithro-

myein is a blockbuster product

which gives us a very strong

negotialing position with our wholesiders," he adds.

a bighly paid but dedicated

management team Pliva.

which currently employs 5,500

people and runs 12 plants, has

gained a new Cexibility. "We

will be shedding some jobs and

clusing down some plants. But

we will also be huilding new

facilities and creating new

skilled jobs," he says. "Our

shareholders will back us if we

show them that we know

where we are going. We not

only create wealth. We also

provide opportunities for the

young who might otherwise

join the brain drain which is

one of the most serious prob-

Consumer price index (1990=100) ::

lems facing the country.

Consumer prices

60,000 -

50,000

40,000

30,000

10,000 -

As a private company under

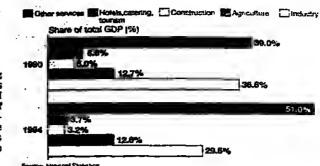
of the banking system remains the very high proportion of non-performing assets which amounted to just over 75 per cent of total assets at the end of 1995 when added to the high level of ohligatory reserves

demanded by the central bank. The bulk of non-performing assets are held by the five largest, former "socially-owned" hanks of wblch Privredna Banka Zagreh is the most chronically afflicted. All borrowed abroad heavily in the 1970s to finance a series of big industrial projects which failed to generate the profits required to service the debt.

But PBZ, which financed the construction of refineries, pet-

Real wage index (1990=100)

-20



rochemical and fertiliser plants and the Adria pipeline which runs from the island of Krk near Rijeka to Slovenia. Hungary, the Czech republic and Serbia, has been left with the worst legacy of non-performing loans and inefficient, cash-hungry client enterprises.

Privredna is almost certainly too hig to close down. But its

The commercial banking sector is at present over-crowded

future as a leaner and more commercial institution will depend on the degree to which the loss-making enterprises on its books can be restructured, slimmed down and given new management

Rijecka Banka, saddled with the accumulated losses of the shipbuilding and other sectors, is in a similar position but is one of two regional hanks which are also being restructured and re-capitalised. The other is Splitska Banka, the regional bank,

But the commercial banking sector is over-crowded and many of the 57 existing banks are small, nnder-capitalised and unlikely to survive as independent units when the current exceptionally high spreads are reduced and competition from the better domes tic hanks and foreign banks increases.

At present Raiffeisenbank (RZB) Austria is the only foreign-owned bank, but several others are preparing to enter the market.

The prospect of increasing competition has also been a spur for some of the formerly 'socially-owned" hanks. The bank recognised by foreign

ingly privately owned." be

bankers as having made most

progress is Zagrebecka Banka

under the chairmanship of Mr

Franjo Lukovic, "The essence

of the old system was that the

enterprises cheated the banks

and the banks cheated deposi-

tors. But in 1991 we introduced

an inflation-protection clause

in our loon agreements and

Since then we've stopped los-

of government-backed restruct-

uring bonds two years ago.

"This helped to solve most of

our non-collectible dehl prob-

lem, including the DM100m we

were owed by Rade Koncar and

other componies bit hy the

wave of bankruptcles in

1990-1991," he adds. "But the

bulk of the problem we solved

ourselves by selling non-col-

lectibles at a discount, selling

assets, re-scheduling some

loans and setting up a separate

has also changed dramatically.

"We now have a new supervi-

sory board on which no bad

debtor is represented. The pri-

vatisation of many of our

The structure of the hank

work-out department."

The bank received DM300m

ing money," he says.

demanded more collateral.

Last year ZB, the main domestic banker for Pliva, Croatia's most successful company, received an Ecu3.2m loan from the EBRD to buy new computers and IT equipment and an Ecu27m loan for on lending to small enterprises and individuals. But talks with the EBRD on an equity invest-ment came to nothing.

share bolding companies and the sate of bonk shares

received from debt/equity

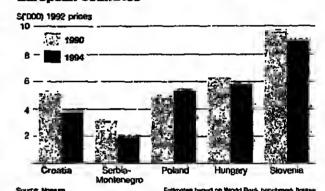
swans means we are incres

"The EBRD wanted too hig a stake. We are not looking for a strategic investor, instead we intend to sell 10 per cent of our shares to foreign financial investors. This will pave the way for o future capital increase through an equity

At present ZB has a comfortsble capital adequacy ratio of 11 per cent, but that is partly a reflection of high interest rates which choke off demand for credit. "We are forced to impose interest rates of Letween 15-23 per cent. That is simply too high for any normal husiness." But the high interest rates and high apreads between deposit and lending rates, which allow many of the smaller, under-capitalised and inexperienced private banks o precarious survival, offer high profit margins to efficient foreign banks not weighed down by inherited unperforming

The prospect of wide spreads encouraged Raiffeisen to become the first foreign-owned bank to enter the market, a decision taken hefore last year's Dayton agreements sharply reduced the country

GDP per head: Croatia and other central **European countries**



Supporting role

The provincial town of Varazdin, 60km north-east of Zagreh near the Hungarian border, lies in the centre of a region long neglected under socialism. For strategic reasons, Tito shifted heavy industry to the interior of Yugoslavia forcing much of Varazdin's 45,000 population to travel abroad for work.

Many bave since returned to set up their own companies and the town now enjoys higher living standards than the Croatian average - o feat that locals proudly attribute to their capacity for sheer hard graft. But Varazdin's future prosperity also depend on Varteks, the local textiles factory, which remains the city'a largest employer despite its financial difficulties. A true corporate bebemoth, Varteks also lends its name to

the local football club. In the 1980s the company had 10,000 employees and a chain of 190 shops throughout Yugoslavia. The break-up of Yugoslavia, however, caused the loss of

core markets and last year's sales of DM170m are 40 per cent down on pre-war levels. The company still has 13 shops in neighbouring Slovenia and 17 in Macedonia, hut its 30 outlets in Bosnia are no longer operating and tha outcome in Serhia was even worse. "On March 15 1991, the Serbs simply declared that our shops there were no longer our property. We lost DM40 DM50m and have not been compensated," says Mr

manager. Varteks' product range includes men'a suits and trousers and women's

Andjelko Herjavec, general

garments. It olso produces jeans under a licensing agreement with Levis signed in the 1980s that gave it the exclusive right to produce and sell throughout Yugoslavio. Varteks ot une point produced 450,000 pairs of jeans a year and became one of

Yugoslavia's most successful companies. Now its exclusive licence is restricted to Slovenia and Croatia, while last year it exported 18,000 pairs of jeans and 5,000 jackets to Levis in Belgium for sale elsewhere in Varteks exported goods worth DM70m last year. The

UK, where it sold clothing worth £8m, is its largest market for goods sold under its own name. Smaller quantities are exported to Germany and Italy. But about 70 per cent of exports are cut-make-trim (CMT) contracts where Varteks undertakes part of the production process as a sub-cootractor. This is typical of the Croatlan textiles sector, which accounts for 14 per cent

CMT is a precarious business. Many Croatian companies had their contracts cancelled in Moy, after the Croatian army's successful operation to re-take western Slavonia, because western contractors feared another outbreak of full-scale fighting. They are olso competing with other east European producers, whose labour costs are substantially lower.

The sharp appreciation of the Croatian kuna in 1994 and

1995 has put eveu more

pressure on marcins. Mr

of total exports.

Herjavec now hopes to scale down CMT business and sell more goods under the company's own name. "We are re-organising the company to try and sell products and not production," he says. This will require new investment and, inevitable further job cuts to a workforce that Mr Herjavec bas already reduced from 6,200 to 4,900

Lured into the market As the first foreign bank in a The aim is to help

PROFILE Raiffeisenbank

clients by exploiting its existing network in eastern Europe

moment, Raiffeiseubank Austria (RZB) is the only foreign-owned bank. High interest rates and high spreads between deposit and lending rates offer high profit margins to efficient foreign banks and these prospects encouraged RZB to enter the market, a decision taken before

last year's Dayton agreements.
"RZB took the strategic decision to go east in 1983. we started in Hungary, then moved on to Slovakia and Poland and soon established a strong presence in all of them. But we were number 22 entering the Czech republic. That was a mistake. But we learnt that the best strategy is to move in first. That is what be bave done in Croatia," says Mr Boris Zenic who runs the bank from its purpose-built Zagreb headquarters.

Like other senior staff Mr Zenic is a returned expatrlate who learnt his banking in London and other financial cen-

"Our aim is to be a significant ployer in this market and use our network in the region to serve our clients. We are well placed to serve both multi-nationals and local exporting companies and our large Austrian and foreign clientele," be says. But with margins on business with foreign companles shaved wafer thin hy competition in the international banking market the real opportunities be in the high margin domestic market.

Our main aim is to support domestic players and try to identify budding local blue chip companies. They cannot afford the 25-30 per cent interest charged by local banks but we can get them cheaper credit lines by borrowing abroad," Mr

country where trust in domestic banks is low and an estimated DM6.5bn is held in accounts with foreign banks in neighbouring Austria and elsewhere, RZB is virtually besieged by local depositors seeking to open accounts.

"We only accept the larger deposits and try to encourage depositors to hold their occounts in kuna. That way we obtain funds which we can onlend to Croatian customers. Unfortunately most decide to accounts, half of which we have to re-deposit with foreign banks on the orders of the central bank. That increases costs and reduces the availability of funds for Investment in the Croatian economy," Mr Zenic concludes. It is an oft-heard lament in this country.

Anthony Robinson



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over the past 18 months. Gavin Gray Foreign Investment: by Gavin Gray

Steps towards acceptance

Much of the future foreign investment is likely to come from portfolio investors

For five years, very few investors even thought about investing in Croatia. This year the country has moved several steps closer to being accepted like the rest of eastern Europe as a safe place for direct and portfolio

The hig hreakthrough came in March with the completion of a \$160m share issue for Pilva, Croana's largest pharmaceutical group, which attracted considerable interest from abroad and was nearly 20

times oversubscribed.

The results of the Pliva offering have been watched just as eagerly at home by other large enterprises. Several of them now believe that this type of deal represents the hest way ont of the aftermath of a privatisation scheme that has left them in limbo.

Pliva was one of 2,500 companies that were sold under Croatia's 1991 privatisation law. The law granted workers and their families a pre-emptive right to huy 50 per cent of the stock of the company they worked for. Each worker could huy stock up to a nominal value of DM20,000, although the purchase price was set at a discount of 20 per cent plus a further 1 per cent discount for every year of employment and they could pay in instalments over five years. The remaining 50 per cent of shares were sold hy tender, Any stock left over was transferred to the Croarian Privatisation Fund (CPF), a government body, and two

state-controlled pension funds. Most large companies ended up with unwieldy capital structures. In Pliva's case, the CPF owned 62 per cent of the shares immediately before the international share issue, the pension funds had 20 per cent and employees the remaining 18 per cent. Although in theory priva-

tised in 1993, majority state ownership meant that Pliva was still subject to wage controls and management's decision making powers were constrained. This factor also ruled out finance from the European Bank for Reconstruction and Development (EBRD), the only foreign lender that was interested in Croatia in 1994 when Pliva's management was drawing up plans for a \$300m

Croatia's hard-pressed

shipbuilding industry received

a welcome shot in the arm last

year when the European Bank

for Reconstruction and Devei-

opment (EBRD) arranged a

\$225m syndicated loan for Rus-

sia's largest tanker operator,

The funds are being used to

finance the construction of

eleven 40,000dwt product tank-

ers in Croatian vards. Two

years ago an Iranian owner

ordered eight 22,000dwt vessels

worth around \$220m - al-

though payment was not in

cash hut in oil through a bar-

Such contracts, and a trickle

of orders from Croatian owners, have helped to keep the

shipyards going, but only just.

When the International Mone-

tary Fund asked the govern-

ment to draw up a list of the

higgest loss makers two years

ago, four of the country's five

shipyards figured prominently.

for years. They were kept

going under the old system

The yards have lost money

ter deal.

Novorossiysk Shipping.

"I see many opportunities after privatisation," says Mr Zeljko Covic, Pliva's president "We are now in a position for restructuring and we will have more freedom than we had in the past. We clearly have to close some very old facilities and we are going to reduce the number of employees." Like most of manufacturing

industry in Croatia, Pllva operated before privatisation as a socially owned company; it was not explicitly state-owned and the workers enjoyed considerable leeway in day-to-day operations

The 1991 privatisation law was restricted to this part of the economy, while the state sector has hitherto heen untouched. This includes utilities such as telecommunications, electric power and INA, the national oil company. Other companies have fallen under state control through the back door.

The state-controlled Priredna Banka, the country's largest hank, has amassed a substantial share portfolio through debt-for-equity swaps and purchases in the secondary market. In the privatisation programme itself, the CPF built up a portfolio of DM7hn. Put together, this gives Croatia the duhious honour of being prohably the only country to run a privatisation programme that has brought about an By the end of 1995, the CPF's

Some 600.000 Croats became

privatisation scheme, but the

government has systematically

ignored the capital markets. It

was not until January - three

years after most companies

had been privatised - that

parliament passed the most

regulations.

rudimentary capital markets

Share registers are still run

hy the companies themselves,

hampering secondary market

conditions for fraud. A stock

exchange opened in 1992 and

DM66m (\$46m) last year. A

With the Zagreb stock

over the counter.

has a modern trading system,

but turnover was no more than

mere four companies are listed

and only another 50 are traded

exchange neglected, two over

- the - counter markets have

Varazdin and Osijek and have

mainly to provide jobs in the

coastal port cities which other-

wise are mainly dependent on

harhour-related activities and

support for tourism. But since

1990, when the vards employed

over 29,000 people, the work-

force has shrunk by more than

half and is still contracting as

the yards engage in painful

restructuring.

Saved from going under

trading and creating Ideal

shareholders through the

A basic stock market

portfolio had been whittled down to DM6bn. Of the 2,500 companies that entered privatisation, 1,145 companies, mostly small- and medium-sized concerns, had been completely privatised. A further 1,142 companies are majority private owned while the CPF retains a majority stake in about 200 companies. This last group includes some of the country's most troubled companies.

By 1994, most companies bad completed their worker buyouts and the focus of privalisation shifted to the CPF's hurgeoning portfolio. Despite the high political risk, the fund sold some shares to foreign investors. The largest single deal was the sale in 1995 of a 49 per cent stake in Nikola Tesla, a telecommunication equipment producer. This was bought by Ericsson of Sweden for DM70m. The country's three largest brewers also fell into foreign hands.

But most companies bave felt frustrated after privatisation. The scheme itself hrought in no fresh capital and with their stock trading at low levels on the secondary market it has been impossible for them to raise new funds at an attractive price. Moreover, the post-privatisation shareholder structure militates against a sharp increase in strategic investment since it would be difficult for a foreigner to acquire a majority stake.

In the wake of Pliva's successful flotation, it seems that

attained a higher profile. The

turnover there is low, hut their prices reflect the subdued state

of the Croatian economy. Most

companies trade at less than 20

per cent of nominal value. This

has fuelled hitterness among

worker shareholders, many of

whom originally believed that

Even the shares of Pliva, one

their shares were worth face

of Croatia's most profitable

per cent of nominal value

companies, traded at about 50

before its equity offering was

eventually sold at 5,100 kunas,

traded up to 9,000 kunas on the

London stock exchange. Many

other companies have come to

the cooclusion that it is only

internationally that they

shares will be fairly valued.

by issuing stock

announced. The shares were

a 40 per cent premium, and

value.

investment will come from portfollo investors. "Pllva has demonstrated that you can find excellent companies in an immature market. But it will stand apart from other privatisations because it is basically valued through its international operations, such as its contract with Pfizer and exports," says Mr Milivol Goldstajn, international director at Zagrebacka Banka. "it will be followed by other companies with good products, strong management and a good position on the domestic market."

With a higher component of Croatian risk, such deals will inevitably be harder to arrange. But directors of companies, whose stock trades at 20 per cent of hook value, believe that a sale to foreign portfolio investors is the best way to ensure their stock is fairly valued. The EBRD has begun talks with Podravka a food processor in the eastern city of Koprivnica, which could mimic the Pliva deal.

Kras, a chocolate producer, is also in talks with the bank about a loan deal, which could he followed by an equity increase. The CPF owns 30 per cent of Kras' stock and management would like these shares to be sold either to portfolio investors or to employees through a huy-out. Management fears a foreign takeover would dilute the company's culture and they would like to retain control.

This sale will he possible under a new privatisation law passed in March, which opened the way for the privatisation of utilities. The law also extended the instalment period for worker shareholders to 20 vears, while the large number of workers who have defaulted on their instalments will henceforth have their shares confiscated, adding to the CPF's already substantial port-

Perhaps the most imaginarive part of the new privatisation law is plans for the country's first voucher scheme. Some DM3hn of assets, representing about half the CPF's existing portfolio will be given away to 300,000 victims of the 1991 war. Refugees will receive vouchers worth about DM7.000 f they return to their homes and other victims will receive vouchers' worth DM5,000 to DM20,000 depending on their circumstances. The scheme is due to be launched in Septemher and government officials hope It will speed up tha devel-

Gavin Gray



Dubrovnik: view out to see over the 13th century city, jewel of the Dalmatian coast. The roof tiles (right) were damaged by artiflery fire Authory Pobrasi

■ Tourism: by Laura Silber

what a lovely backdrop

Croatia has now to persuade the world that the war is over and that it is again safe for holidays

Few wars have heen fought against such a stunning scenic hackdrop as the war of the Yugoslav succession. And seldom bas the gratuitous vandalism of war been more graphically demonstrated than in the Serb bombardment hy land and sea of the former Venetian stronghold and port city of Dubrovnik.

The stunning walled city stands in the lee of high mountains and protected by islands towards the the southern tip of independent Croatia's 1,778 km-loog Adriatic coastline.

The good news is that the fighting is over, the heavy artillery has been withdrawn under Nato supervision and peace has returned to the Dalmatlan coast and to the haroque cities of the interior. Only eastern Slavonia is still full of men with guns, and that is in the process of peaceful

re-integration.

in Dubrovnik itself, one has to look hard for evidence of the recent violent past - the telitale star-shaped scars of shell hursts in the glistening marble of the main street, shrapnel holes in walls - and above all. the rash of raw red tile new roofs to replace the delicate er-beaten roofs destroyed hy shell-fire.

With the despatch of a 60,000strong Nato-led force to keep the peace in neighbouring Bosnia. Croatia now has the chance to rehuild its economy.

The need now is to persuade the outside world that the war is over and that from the northern tip of istria, to the 1.000 and more sun-soaked islands to Duhrovnik in the south, Croatia is once again a safe holiday destination.

Attracting tourists back to Croatia Is a high priority for economic policymakers. Mr Niko Bulic, the minister of tourism, expects receipts from tourism, including hotels and transport to reach \$1.8bn in 1996, about seven per cent of GNP and roughly the same as receipts in 1990, the last good season on the eve of the war. That was when tourists came to Croana but thought it was Yugoslavia." he adds.

Tourism was former Yogoslavia's higgest hard currency earner officially amounting to seven per cent of GDP, but in fact its contribution was nearly double that when private transactions were taken into account. The bulk of the earn-

ings came from Crostia. Crostia used to be included in foreign package tours, often combined with Italy or Austria. British tour operators, for example, used to book hotels in Dubrovnik as a stopover on a cruise from Venice. British tourists. were the higgest single group of foreign holiday makers in 1990, after Germany and Italy.

Czechs, Germans, and Austrians are now the main visi-tors. The British have been lower to return In part, this is due to concern over the safety of airports which used to be targetted by the Serbs.

Dubrovnik, which used to serve over a million passengers a year, was bombarded during the war. A more general concern is that the coastal airports such as Dubrovnik lie in the narrow coastal strip hemmed in by high mountains. In an effort to lure back British tour operators Croatta is now willing to subsidise charter flights. If they are worried, they do not have to use Dubrovnik and Split, charters can use Pula in

Tourism rehounded first in Istria and Kvarner hay in the oorthern Adriatic which were not affected by the war. There tourist levels have almost reached those of 1990.

northern Istria." the minister

But around the Croatian port of Split, home to the magnificent Diocletian palace huilt hy the Roman emperor in the fourth century, and the surrounding islands, tourist levels are less than two-thirds those of 1990 and in the south near Dubrovnik tourism will at best reach 40 per cent of the earlier

In 1990, foreign holiday makers accounted for 59 per cent of all arrivals and industry officlals are having to re-think their approach to tourism in an attempt to get them back.

A slew of problems have to he addressed. Many hotels, especially on the southern coast, are in need of refurbishment because they became the temporary home to Croatia's

kuna, the national currency, also makes the country rather expensive. A simple fish dinner for two in Dubrovnik complete with the full-flavoured local wine, can cost \$65. A night in the Argentina, once one of the finest hotels in Dubrovnik but now somewhat run down, costs around \$180 for a double room.

Much as officials insist that Croatia has more in common with central Europe than with their former countrymen, many of its waiters and tourist personnel still have much to learn about the virtues of service. A communist mentality still persists. Waiters, particulariy in large hotels, often stili believe they are doing you a

Mr Bulic says Croatia is now

working to give better value for foreign tourists and secure its place among Mediterranean countries such as Greece, Spain, Portugal and even Italy. We must balance the need for tourism with the need for a strong currency. We must offer good value to compete," he says adding that tourist officials are now researching prices in competitor countries from a cup of tea to an overnight stay. "We also need a hetter halance hetween the number of visitors and the quality of service," ha admits. We now offer 600,000 beds, substantially fewer than before the war. We are a country of just over 4m people. We cannot cater to ten million visitors a year. We would be happy with 7-8 million," says Mr Bulic.

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A STATE OF THE STA

Compare a training

In Croatia's favour is one of the most beautiful coastlines in the world and enormous regional variations. The Istrian town of Pula, whose trademark amphitheatre was huilt in the second century, is a masterpiece of graceful architecture. Brioni, the islands where Tito, the founder of communist Yugoslavia used to summer with hand-picked members of the elite, is now the holiday spot of choice for President Tudjman. Since the collapse of communism it is also open for tourists. It still boasts a zoo. full of animals donated by leaders of developing countries.

Coastai towns, many still representative of the period when the entire region was under Venetian rule, have fine beaches with quaint centres which offer a warren of restaurants. The islands of Hvar and Korcula, whose old towns of perfect Venetian proportion. provide a fine mix of comfort and Dalmatian hospitality - excellent local wines and delectahle cuisine.

Those visitors wanting to see continental Croatia will not be disappointed by a visit to Plit-vice National Park, which has a lake, beautiful waterfalls and iovely grounds for walking. Heid by Serb rehels until last August, it is now safe and offers a rich selection of flora and fauna.



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deht which only the government can write off.

Meanwhile the Croatian yards have to face competition from other former socialist countries such as Poland whose restructured Sczcecin yard is now one of the most productive in Europe and makes profits without any sub-

Mr Vladimir Brusic, the new

manager of the 3 Maj yard.

says much has been done to

improve prodoctivity. In 1990

we paid \$84m in wages and

another \$22m to suppliers and

produced four ships. This year

shipyards to survive and has

launched a salvation pro-

gramme for the five yards - Ul-

ianik at Puls in the north. Bro-

dosplit and Trogir in the south

and 3 Maj and the small Kral-

jevica yard in Rijeka," he adds.

Under the salvation plan the government will write off

inherited dehts but the

slimmed down and restruc-

tured yards will be expected to

survive without further subst-

Meanwhile the privatised

Viktor Lenac repair yard at

Rijeka provides a glimpse of what can be done with good management and restructur-

ing. The yard is now reported

to be profitable with a healthy throughput of ships into its

floating dry docks. Tankerska

Plovdiva, the Zadar-based ship-

ping company, also managed

to remain profitable through-

out the war hy teasing its ships on charter to foreign oil com-

dies in future.

But the shipyard racked up losses of \$200m in 1990 alone and is saddled with a level of

ls a typical example. Six years

ago lt employed 7,000 workers.

It is now down to 2,900 and a

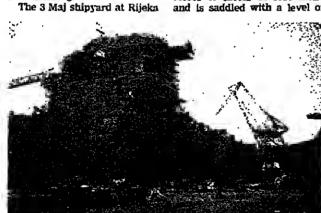
further 600 will go later this

year. Financing has been a par-

ticular problem, especially dur-

ing the war when no one

wanted to pre-finance ship con-



we'll turn out the same numher of ships with a reduced labour force and a total wages bill of \$25m," he says. "The government says It wants the



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Anthony Rohinson

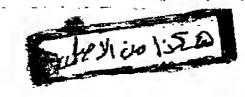
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Mediaset

shuffles

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By Andrew Hill in Milan

Mediaset, the Italian media

group controlled by Mr Silvio Berlusconi, yesterday resbuffled its board in a further attempt to

its board

15

IN BRIEF

ORSDAY MAY 30 p

France dismisses head of Snecma

The French government dismissed Mr Bernard Dufour as head of the state-owned Snecma aeroengine company yesterday, complaining of his failure to sell non-strategic assets quickly enough and referring to a recent row with General Electric, Snecma's long-term US partner.

Bellell creditors clear way for break-up Creditor banks of Belleli, the Italian engineering contractor, yesterday cleared the way for its even-tual break-up and sale by signing up to a financial and industrial restructuring plan.

Wella gets to the root of the problem Wella, the world's largest supplier of professional haircare products, not only suffered a 48 per cent fall in net earnings last year, but it also lost its chief executive and its shares have tumbled more than 40 per ceni from their peak last July. The chairman concedes much of the blame must be laid at the company's feet. Page 17

Metrobank shares soar on 66% growth Shares in Metrobank, the Philippines' largest pri-vate-sector bank, soared to a high yesterday after the company said net profits rose 66 per cent in the first four months of 1996. Page 18

Domestic sales drive Mitsubishi Motors Cost-cutting and higher sales in the domestic mar-ket belped Mitsubishi Motors, one of Japan's leading vehicle makers, post record profits on a non-consolidated basis last year, Page 18

Chief of Texas Instruments dies Mr Jerry Junkins, chairman, president and chief executive of Texas Instruments, died suddenly yesterday aged 58. Page 19

Investment income lifts Canadian bank Royal Bank of Canada, the country's biggest financial institution, reported a 12 per cent advance in second-quarter earnings thanks to record investment banking income and lower loan-loss provisions. Page 19

Cashmere gives Dawson a rough ride Dawson International, the Scottish textile group best-known for its Pringles brand, announced a 39 per cent fall in underlying profits last year after steep price rises in cashmere. Page 20

UK retailer may sell DIY chain

WH Smith, the UK retailer, is likely to signal a readiness to sell Do It All, the loss-making DIY chain in which it has a 50 per cent stake, when it presents the results of its strategic review next

Programme sales boost UK media group Record programme sales of £72m (\$109m) helped to push Carlton Communications, the UK broadcasting and media services group, to better-than-expec-ted pre-tax profits of £143.3m for the six months to the end of March. Page 20

Companies In	this	is:	sue
Abacus Polar		20	Mayne
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Chief price changes yesterday

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Air France is in discussions with

The French state-owned carrier, which is boping to be priva-tised in late-1997 or early-1998. aims to have a good idea of

up with by the end of this year.

Disclosure of the talks comes
as Air France's position is show-

It recently revealed that it had reduced net losses bafore restructuring costs to less than FFr1.2bn in 1995-96, excluding Air France Europe, its domestic part-

gramme of measures to improve its financial performance. Air France this month said it

would delay a planned restruct-uring of its domestic and European operations if domestic pilots

month that "if, as we hope, we can rectify the situation of Air France Europe's accounts...shareholders will be interested in a company that has recovered so spectacularly in

linked with European companies. The US government last week we ann-trust immunity to Lufthansa of Germany and United Airlines in a move that will

enable the two companies to operate more like a single airline. It also gave tentative approval for Delta, Swissair, Sabena of Bel-gium and Austrian Airlines to combine their operations. The four carriers operate a number of code-sharing agreements, allow-ing them to sell seats and put their flight numbers on services operated by their partners.

It has indicated that it would block any alliance between BA

and American, however, unless the UK agrees to conclude an "open skies" agreement with the US. BA already has an alliance per cent stake. USAir could also yet emerge as a possible partner for Air Beautiful Partner for

The French carrier is also thought to be considering how best to develop its presence in Asia, possibly through some form of link with a Chinese airline. It last year signed the basis of an accord with Japan Airlines. American Airlines and Canadian Airlines given 'tentative' antitrust immunity. Page 19

improve the chances of a successful flotation.
Foor directors stepped down.
including Mr Marcello Dell'Utri, one of Mediaset's four managing directors, and Mr Alfredo Messina, a managing director of Fin-invest, Mediaset's controlling

Consoh, Italy's financial markets watchdog, mnst decide shortly whether to approve Medi-aset's prospectus. The flotation sbonld value the company at abont L7,000bn (\$4.5bn) and reduce the stake beld by Fin-mvest, Mr Berlusconi's private bolding company, from just

under 70 per cent to less than 50

per cent.

Mediaset is attempting to ring fence the company against the impact of judicial investigations into managers of Fininvest and underline its attractions, which include ownership of Italy's three largest commercial televi-sion channels and the potential to exploit the telecoms sector.

Mediaset said it would keep to its timetable. The company planned to launch an international roadshow for the offer next week with a view to flota-tion by the end of June or early July.

The Mediaset board will meet again today to decide on the price range for the sbares. Banks advising the company bave pressed Fininvest to set a wide range, in case potential investors are deterred by the legal uncertainty. The board is expected to spprove a minimum price of L6,000 a share for the float well below the L6,875 paid by existing minority shareholders but it could set the actual range

The board changes were unexpected, although sources close to the company said the resbuffle had been planned for weeks. Mr Fedele Confalonieri, chair-

man of Mediaset and of Fininvest, said the appointment of four new directors "gave a clear signal on the theme of conflict of interest and the transparency of relations between the controlling shareholder and its subsidiary"

Mr Giuliano Adreani will replace Mr Dell'Utri as one of the team of executive directors at

Air France discusses US alliance

at least four leading US airlines about a possible transatlantic

The four are American Airlines which is discussing what industry sources suggest may be a far-reaching accord with Britisb Airways - United Airlines, Delta Air Lines, and Continental

which of the four it wants to tie

changes

help JAL

return to

By Gerard Baker in Tokyo

Japan Airlines, the country's largest carrier, yesterday reported its first operating profit

since 1991. The company attri-

buted the improvement in the 12

months to March to its extensive

restructuring and strong demand

in growing Asian markets. Bnt a

change in its method of account-

ing for depreciation also

Operating profit for the year was Y15.4bn (\$143m), compared with the previous year's loss of

Y9.9bn. Recurring profit - before

extraordinary items and tax -

jumped 56 per cent to Y4.4bn. Net profit was Y500m, following last year's loss of Y1.3bn.

JAL said that as a result of

new investments made in the

Cost-cutting and increased capacity on international routes

through co-operation agreements

helped boost full-year net profits

st Malaysis Airlines 67.3 per

decided to change its method of

depreciation accounting. In the

past such investments would

beavily front-loaded, declining

balance, basis. As from this year

they would be accounted for by

the straight line method. The

effect was to increase recurring

profii compared with last year

ples, JAL said the change was a

fairer reflection of the costs and

benefits of the big ontlays on

yen, which increased Japanese

New rontes and special excur-

sion fares had also contributed to passenger growth, especially within the Asia-Pacific region.

New routes and a more com-

petitive fare structure produced

an increase in volumes in the domestic market, in spite of the continuing weakness of the Japa-

nese economy. Domestic passen-

ger traffic and domestic cargo

volumes hotb registered increases of nearly 6 per cent. JAL said its long-term

restructuring, which aims to cut

staff numbers by 5,000 in the five years to 1998, remained on

course. This year JAL expects

domestic demand to remain slug-gish, offset by continued growth in international traffic. Sales are

forecast to rise 4.5 per cent to

Y1,167bn, with recurring profit up slightly at Y5bn.

recently made by JAL.

14, 15 19

14, 15 14, 15 4

Although the move suggested

cent to M\$233m. Page 18

improved JAL's results.

profit

ing signs of improvement after cumulative losses of FFr15bn (\$2.91bn) since 1991.

ner, and boped to cut this to FFr115m in 1996-97. Air France Europe remains a problem and is subject to a pro-

did not agree to a new remuneration package by the end of next But Mr Christian Blanc, Air France chairman, predicted this

such a short time".

Three of the four US airlines with which the group is in dis-cussions have already been

Accounting | Big insurance brokers may look to join forces, writes Ralph Atkins

Consolidation looms to combat a sector's angst

about to hit the world's big commercial insurance brokers?

The sector is suffering collec-tive angst; a feeling that something dramatic is needed to galvanise otberwise-lacklustre prospects.

Mr Sax Riley, chief executive, of UK-based Sedgwick, has warned that out of the "big six" insurance brokers, the "cake can only accommodate three or four". Mr Frank Zarb, chairman of New York-based Alexander & Alexander, told shareholders earlier this month that A&A was "alert to exploit strategic opportunities that will hasten the industry's inevitable consolidation".

But despite some stock market fizz - takeover speculation has helped push the shares in the UK's Willis Corroon up 10 per cent in the past three weeks there has been little action.

That raises the question of whether, as in banking and insurance underwriting, consolidation offers 8 solotion to bro-kers' difficulties? Or is the sector The sector's difficulties are manifold. Most obviously, insur-

ance rates bave tumbled in

have been written off on a business with underwriters. Lower interest rates bave cut Investment returns and low inflation has distbe company would bave couraged comparecorded a large recurring loss for the year under the old princinies from buy-ing increasing

amounts Demand patterns bave

new airports and other facilities changed profoundly. The biggest few decades. Total sales rose almost 8 per brokers offer global expertise cent to Y1,116bn. International demanded by multinational clients. But commercial buyers are passenger traffic rose more than increasingly "self-insuring", by 13 per cent, belped by the strong bearing the cost of smaller risks demand for overseas travel, and by a recovery in business traffic.

Corporate buyers expect higher levels of service, including specialist skills in managing workplace risk. But by so reducing the dangers they face, companies reduce the need for insurance. At the same time, clients are

preferring to pay fees, rather than commissions. This increases the scope for competition because remuneration is determined by the brokers pitching for business, rather than varying according to the amount of insurance bought. Such factors explain why the total turnever of the big six brokers has, after adjusting for inflation, remained broadly flat in the

past few years.
One response would be to expand into new services and markets. Mr Max Taylor, chief operating officer at Willis Corroon, argues "no insurer or

Is merger and takeover activity global marketplace of commercial insurance providers like the

Yet when brokers try io develop new services they often run up against competition: accountancy firms, for example, are developing risk management expertise and enjoy strong board-level contacts with blue-chip cli-

Expansion is possible into continental Europe, where local bro-kers have lended to remain within national borders and large companies traditionally rely on in-house insurance buyers. Emerging economies, too, offer opportunities,
But, as Mr Taylor scknowl-

edges: "The enormous population of many of the developing economies should not be confused with the population of commercial insurance opportunities, at least not for a while."

So consolidation seems alluring. By joining forces, the large insurance brokers could not only increase their geographical spread and expertise: fewer bropetitors.

There is also scope for economies of scale, albeit not on the recent years, reducing commis-sion income earned when placing insurance underwriting. Mucb of

problem is

putting people

businesses

together'

brokers' time is dling and pro-'The overriding cessing policy claims - tasks suited to automation. Willis Corroon and Sedgwick, for example, bave large teams aervicing insurance policies soid over the past

But if consolidation makes sense in principle, it is hard to aee who might make the first move. Marsh & McLennan, the world's largest broker, has enjoyed good earnings growth in recent years from Putnam, its investment arm, and as far as insurance services are concerned, has tended to look for organic growth rather than big pur-

Similarly – despite the aggressive comments of chairman Mr Zarb – Alexander & Alexander bas concentrated on acquiring smaller companies or teams in certain practice areas or geographic regions.

That has left attention focused on Chicago-based Aon, which in the past six months has raised more than \$1.2bn by selling two life insurance companies prompting speculation that it might buy Willis or Sedgwick.

Another possibility is Willis joining forces with Sedgwick. The problem with such theories, bowever, is that brokers' beavy



One chief executive warned that of the 'big six' insurance brokers the 'cake can only accommodate three or four'

merging could be quickly offset by the desertion of key employ-

As Sedgwick's Mr Riley says "the overriding problem is put-ting people businesses together". Mr Patrick Ryan, chief executive of Aon, says: "Our funda-mental strategy has been much more geared towards [sequiring] boutique businesses that fit into

our culture and strategy." Some in the industry argue sufficient consolidation has taken place already. Willis, for example. has decided in the past two years UK and US companies, as well as reinsurance broking and other specialities. Johnson & Higgins, the private broking company, is largely US orientated.

If that is true, there seems little chance of an end to the overcrowding. For now, the profits outlook is uninspiring rather than cataclysmic. As Mr Roman Cizdyn, insur-

ance analyst at Merrill Lynch, says: "When you have borror stories, that is when they will start thinking about consolidation on

a realistic basis."

THIS ANNOUNCEMENT APPEARS AS A MATTER OF RECORD ONLY

BTR plc

as part of its strategic development has sold

DUNLOP SLAZENGER **CINVen**

for a value of £330 million, of which £.65 million is conditional on the achievement of certain financial returns

J O HAMBRO MAGAN & Co

acted as financial adviser to BTR plc

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Bid war heightens for UK utility firmly believe that the combina-tion of two strong businesses

By Simon Holberton in London

The bidding war for Southern Water, the south-east of England water utility, turned acrimonious yesterday when Southern Elec-tric topped Scottish Power's offer with a £1.6bn (\$2.43bn) agreed takeover.

Scottish Power, which on Tues day announced a £1.54hn bid, accused Southern Electric of pursuing a "reactive and defensive" strategy that did little for compe-Southern Electric said it

"noted" Scottish Power's statement. It added that the Scots bad completely missed the point: "We came out with a higher offer that received a strong recommendation from Southern Waier's board," it said. Mr Ian Robinson, Scottisb Pow-

er's chief executive, said Southern Electric's shares and casb bid gave nothing new to customers and "offers the prospect of significant job losses below board level".

Earlier, Southern Electric's bid. which values aach Southern Water sbare st £10.03 and includes a casb alternative of 975.7p, was recommended by the water utility. It bought 15.7m Southern Water shares, 9.9 per cent of the company's capital, at 9950 a share.

Southern Water's shares closed 46p higher at 987p, while Southern Electric's closed 19p lower at 707p. Scottisb Power ended 6p up at 625p. Mr William Courtney, Southern Water's chairman, said the offer

represented good value for share-

bolders and customers. "We

experienced in providing essen-tial services will be of benefit to customers and the community," he said. However, unlike Scottisb Power, which is offering customers a 3 per cent cut in water bills

for two years starting April 1998, the Southern Electric bid pro-vides no inducement. Mr Courtney said that, in the normal course of business, water prices would be cut by 1 per cent this year and there would be further cuts in subsequent years.

Mr Geoffrey Gibson, chairman of Southern Electric, said the buainesses of both companies were highly complementary in terms of geography, customers and core operational skills.

By David Buchan in Paris

The French government yesterday dismissed Mr Bernard Dufour as bead of the state-owned Snecma aeroengine company. It complained of his failure to sell off nonstrategic assets quickly enough and, in thinly-veiled terms, of his recent row with General Electric, Snecma's long-term

US partner. The government said it shortly, and speculation cen- alliances and its privatisation,

who spent many years in the Snecma group before being appointed head of SNPE explosives company in 1994.

Mr Alain Lamassoure, the government spokesman, yesterday said the summary dismissal of Mr Dufour, who came to Specma in 1994 from GEC-Aisthom, the UK-French company, was "a bit exceptional". But he said "the recent positions taken by Mr Dufour, notably on Snecma's policy of enterprises strategy", while Mr Dufour had also failed to beed repeated government demands" to speed up asset

Mr Dufour's dismissal is the result of a series of disagree ments with ministers and other industrialists. Last week. Mr Oufour

revealed to the press that the government was studying the privatisation of the lossmaking Snecma. He said he wanted the company to stay in

"entirely French" hands and that it would need a FFr6bn- and recently negotiated an FFr10bn (\$1.14bn-\$1.9bn) recapexclusive six-month study conitalisation from the state. tract with Airhus to supply Ironically, one of the main

complaints against Mr Oufour is the recent hreach in Snecma's long-standing partnership with GE in making the CSM range of aero-engines. Mr Dufour bad insisted that

Snecma play a higger techno-logical role in the planned CSM-XX engine to power the stretched version of the A-340 Airbus, by making part of the

this engine by itself. Mr Dufour retaliated by signing a similar contract to study development of smaller engines with Pratt & Witney and by making clear he wanted GE kept out of Snecma's capital. GE had indicated its readiness to take a 20 per cent share in Snecma - an offer that might prove useful in any privatisation of the company.

which last year lost FFt1.2bn on French based aero-engine sales of FFr8.6bn. Mr Jean Tierson. Airbus

president, complained that Mr Dufour's refusal to follow GE in cutting engine prices -hecause of Snecma's own financial problems - bad resulted in Airbus losing sales to Boeing. GE is also believed to have told Mr Pierson that its Gecas aircraft leasing arm would only buy Airbuses if there were a change at the

services, with switch and

transmission equipment:

BFr13.2bn to upgrade the existing networks: and BFr6.4hn in

administrative systems. The

group expects to break even by

the sixth year, with annual

turnover by the 10th year proj-

chief executive, said the move complemented its existing

European cable interests.

including a move into the UK

as founding partner of Tele-

West, the world's largest inde-

pendent operator of combined

cable TV and telephone ser-

vices, as well as investments in

the Netherlands, France, Scan-

in Belgium made it ripe for

competition. The former

monopoly provider, Belgacom,

which recently installed a new

hoard following its partial pri-

vatisation last year, is busy

dinavia and eastern Europe. He said high telecoms prices

Mr Gary Ames. US West's

NEWS DIGEST

Dutch to examine proposed TV deal

The Dutch government is to investigate a proposed pay television merger that would leave a single competitor on the fledgling Benelux digital TV market. The move could prove to be a test case for the government's commitment to stimulate

domestic competition.

Earlier this week. Philips, the Dutch electronics group, and Royal PTT Nederland (KPN) proposed to join forces with Nethold, a privately-owned information services provider, to introduce digital television in the Benelux this summer. But Mr Hans Wijers, the Dutch minister for economic affairs, told parliament yesterday: "The key issue is whether this new combination will diminish the chance for new entrants into the pay-TV market."

The deal would mean the only existing subscription and pay-per-view competitors in the region - FilmNet / SuperSport (owned by Nethold) and TeleSelect (a Philips-KPN joint venture) – would be subsumed into a single entity. Philips and KPN would receive a shareholding of up to 40 per cent in

Nethold Benelux in exchange for TeleSelect.

The proposed merger will bring the Benelux one step closer to the de facto establishment of a TV set top "black box" technology owned by Nethold. Last month, the Dutch government tabled legislation to ban cartels and to set up a watchdog commission with the power to review proposed

Banco Di Napoli trims network

Italy's Banco Di Napoli has reached a preliminary agreement to sell 50 branches in Northern Italy to Banca Popolare di Brescia for L290bn (\$186m). Banco Di Napoli said the operation would help improve its liquidity by decreasing interbank debt. On Tuesday, Italy's Treasury ministry said it had nominated N.M. Rothschild as adviser on the restructuring of the troubled bank. The planned acquisition fits in with Banca Popolare di Brescia's strategy of expanding in northern Italy. While the deal has not been finalised, the two hanks noted that their negotiations were now exclusive. AP-DJ, Milan

PT shares rise ahead of offering

Shares in Portugal Telecom rose yesterday amid reports of strong demand for a secondary global offering of 22 per cent of the group that closes on June 7, PT shares closed at Es3,699 yesterday, up just over 1 per cent on Tuesday's close, Brokers said some institutional investors were huying shares on the open market hecause they were concerned they would not be allocated all the shares they wanted through the book-building process. "This is pushing the price up ahead of the sale," one Lishon dealer said. "But investors would prefer price stability now and growth after the sale."

The shares have gained 32 per cent since an initial public offer of 27 per cent of PT's equity a year ago. The secondary offering is to be priced on June 10 before trading in the new shares begins the following day. Co-ordinating banks said pre-registration for a public offer of 11m shares to Portuguese investors, which closed yesterday, was heavily oversubscribed

Transavia declines to Fl 17.6m

Transavia, the 80 per cent-owned charter airline subsidiary of KLM Royal Dutch Airlines, saw its net profits for the fiscal year ending March fall to F1 17.6m (\$10.2m), from F1 23.4m in 1994-95, despite having carried 14 per cent more passengers. The lastest result was bolstered by a Fl 13.1m extraordinary gain connected with the sale of three aircraft. Operating profit slumped from FI 16m to FI 4.52m.

West joins BFr37bn Flemish telecoms tie-up

US West, the US telecoms group, is teaming up with 17 Flemish cahle-TV companies and a consortium of investors to create a sophisticated broadhand telecoms network for Flanders. The deal involves investment of BFr37bn (\$1.2hn) over 15 years.

The service, Telenet, hopes to provide competition in telephony services for Belgacom, the former state-owned group in which a consortium led hy Ameritech, another US telecoms group, took a 49.9 per cent stake for BFr73.3bn in

December. It will convert the existing 52,000km of co-axial cable which links 95 per cent of the 2.1m homes and businesses in Flanders into a broadband network capable of offering advanced communications services, as well as video-ondemand, pay-TV, interactive games and other services. It expects to begin within a year. The alliance, concluded this

By Andrew Hill in Milan

Creditor hanks of Belleli yesterday

cleared the way for the eventual

hreak-up and sale of the international-

ly-known Italian engineering contrac-

tor, by signing up to a financial and

The formal approval of the plan

cuts almost all the group's ties with the founding Bellell family, which

managed the company until last year

when it hit financial difficulties. The

original Bellell holding company is

now under court administration.

industrial restructuriog plan.



Telecoms team: (from left) Alex Brabers, GIMV; Piet Vandermeersch, Telenet; Cliff Stice, US West; and Dirk Boogmans, Telenet

ahead with the deal while Belleli was

Mr Cassaro said yesterday he expec-

ted a Mantua court to lift the adminis-

tration order in "a couple of months".

He explained that the Ursa project

would be handled by a new company,

especially established to reassure

Shell that income from the contract

would not simply be used to finance

heavy engineering contracts, such as

Belleli is well-known for its work on

the rest of the group.

week after more than a year of share of the new company. feasibility studies, is the latest in a spate of telecoms deals ahead of liberalisation of European Union telephone services

with 35 per cent beld by the 17 cahle distribution companies, Six of these are pure public utility companies, while 11 are mixed utility companies with US West has a 25 per cent elements of public and private

ownership. A further 20 per cent is beld by GIMV, the Flemish investment company. while a consortium of investors including Kredietbank. ABB, and Gevaert has the

group will have capital of Much of the projected BFr37bn investment will come in the first seven years. This will involve BFr15.4bn to cre-

restructuring and cutting staff - and attempting to throw off

Creditor banks give assent to Belleli restructuring plan The conversion of bank debt into Shell had been cautious about going and deep-sea oil platforms, but delays and non-core husinesses will be sold in payment on government contracts

led to a financial crisis last summer. "If this had been any other company, without the strong technologi-cal hase, we would not have signed this restructuring plan," Mr Cassaro

said yesterday. Mr Cassaro, a former manager with Iri, the Italian state holding company, now intends to proceed with the restructuring and eventual sale of the group. Its core energy and offshore subsidiaries will be wholly owned by the construction of power stations Impianti, the new holding company,

first. The aim was to sell the energy and offshore activities themselves hy the middle of 1998, he said.

All but seven of the group's 52 credltor hanks agreed to write off 60 per cent of Belleli's L1,000bn of debt, and the remaining loans will be converted into equity. The company is still negotiating with suppliers about the writeoff of between 60 and 80 per cent of outstanding debts of L280bn.

The crisis cut Belleli's turnover in 1995 to L1,162bn, against about L1.400bn in 1994.

REPUBLIQUE DE COTE D'IVOIRE

egulty in a restructured bolding com-

Mr Renato Cassaro, brought in as

chief executive in November, sald yes-

terday the company would now be

able to press ahead with an important

contract with Shell Offshore, the US

offshore exploration arm of Royal

Dutch/Shell, for the construction of a

new drilling platform known as Ursa.

contract, worth L250bn (\$160m) to the

Mantua-based company, next month.

Belleli expects to be able to sign the

family with only a minimal stake.

pany, called Impianti, will leave the still in administration.

PRIMATURE

MINISTERE DELEGUE AUPRES DU **MINISTRE DES INFRASTRUCTURES ECONOMIQUES, CHARGE DE L'ENERGIE ET DES TRANSPORTS**

Third Thermal Power Plant for Abidian

Tender Shortlist Notification

- 1) As part of the its economic development policy, Côte d'Ivoire wishes to build a third thermal power plant at Abidjan, to satisfy the growing demand for electricity. The Côte d'Ivoire government is therefore inviting international applications for admission to a tender shortlist for this project.
- 2) The project consists of two lots:
 - Lot 1,to be covered by a BOOT contract, covers funding, construction and operation of a thermal power plant to have an eventual total power of 300 to 450 MW ISO. The plant will use single-cycle or combined-cycle technology and the first stage will consist of a gas turbine having a unit power of 100 to 150 MW ISO. The turbines will use natural gas as primary fuel and DDO (distillate diesel oil) as reserve fuel.
 - Lot 2 covers construction of an energy evacuation system for lot 1, financed from government fund (Fonds National de l'Énergie Électrique)
- 3) Applications for admission to the tender shortlist are invited from companies and groups of companies with demonstrable know-how and experience in funding, building and operating thermal power plant.
- Tender shortlist application forms and accompanying documentation can be obtained from the address below in exchange for a non-refundable cash remittance of CFAF 100,000:

Direction et Controle des Grands Travaux Département Industrie et Énergie Boulevard de la Comiche, Cocody 04 B.P. 945 Abidian 04

> Telephone: 44 21 18 Fax: 44 58 66

- 5) Applications should be submitted in five copies (including the original) in a sealed and stamped envelope by 18:00 GMT on 31 July 1996, at the above address.
- Shortlisted applicants will receive individual notification, by mail or fax of how to obtain the final tender documentation.

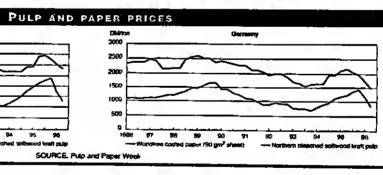
sappi limited

UNAUDITED RESULTS

for the six months to 31 March 1996

. DRAMATIC DECLINE IN MARKET PRICES . SIGNS OF MARKET BOTTOWING

. CAPITAL EXPENDITURE PROGRAMME NEARING COMPLETION



All the markets in which we operate softened dramatically during the period under review, eg. the list price of northern bleached scrience dramatically during the period under review, e.g., the list process of northern bleached collected Araft pulp, the benchmark for the mastry, left from \$325 per metric for in September 1995 to \$520 per ton by the and of March 1996 – the streepest deckine ever. Transaction prices dropped below lest. The enventory build which had occurred in the previous year continued to be corrected throughout the reporting period and this resulted in most paper milist laking significant downtime. The collapse of the pulp price also put severe pressure on paper prices, and with prices dectining, customers drove their enventiones to advanchments by the levels to around having to write down inventory values. Whilst the paper industry took significant downtime, if is unfortunate that pulp makers are now taking downtime and indications are that excess stocks will shortly be reduced. Paper demand has continued to rese steady and inventories are at a low level.

Earnings per share tell to 58 US cents for the six months compared to 80 US cents for the six months to March 1895 and 185 US cents for the seven months to September 1995. The boreat has decided that a capitalisation share sward be made to shareholders. Those shareholders who elect to decline the sward will instead receive a cash dividend of 70 SA cents per share. An announcement will be made by no latter than 10 June 1995 giving the full terms of the capitalisation share award and other perthent information. The fast date to register for the award will be 14 June 1996.

The debt to equity ratio at 31 March 1996 was 0,94 which compares with 0.97 at 30 September 1995, it remains a priority to improve the debt/equity ratio. The downturn in the market has made this more difficult to achieve. Most of the debt is in Warren and the group arranged the Warren acquisition finance so as to enable Warren to manage through a full down cycle it necessary. We do not believe that short-term decisions, which may have a long-term negative impact, should be

In Southern Africa the group is making good progress with the modernisation and cost reduction programmes totaling approximately P1.2 billion. Most of these projects are expected to be completed by the end of September 1996, whereafter the group expects to eightfoorthy reduce capital expenditure to normal maniferance levels Af breight currency exposured relating to these projects were covered prior to the recent collapse of the rand.

SUMMARY OF RESULTS UNAUDITED то 31.3.96 то 31.3.95 \$1 770m \$1 400M \$213m \$201M \$96M \$129m 58 US CENTS 80 US CENTS 70 SA CENTS '70 SA CENTS

operations into an overall European unit, in Germany a further DM50 million is being spent during the current year to raduce costs and improve quality and output which will positively impact on Hannover Papter's ability to preserve and grow its market share, and on its profitability.

In the United States capital expensions relates only to maintainance or small but high pay-back projects and will amount to about \$65 million in the full financial year. Some acceleration in capital expenditure can be expected in the least year or but.

Prior to the most recent colleges of the rand the group put in place some rand/dollar forward cover to reduce the extended the pend of this cover beyond what was originally planned. If we had had the benefit of taking cover at the current exchange rates, earnings would have share.

We expect the international aconomic environment, and so too paper demand, to improve in the second half of the calendar year. The current period of inventory adjustments has been longer and much fiercer than anticipated but indications are that it is nearing an end. The outlook is now more positive albeit from a low base. Pulp prices bottomed in March and pince increases have been announced for the month of June, Indicators are that they will previous. Coated and uncoated fine paper prices, which had dropped severity reached that low in April but have started to move up and discounts are being reduced, in Southern Africa the weak rand will enable the company to reverse some of the price reductions effected earlier in the year and we should now see domestic prices rising to their earlier fevels. If would appear thet the overalt trend is now upwards. The second half of the calendar year should be better but the second half of the calendar year should be better but the second half of May. We expect a recovery in the fourth quarter of the financial year as prices continue to stabilise and discounts reduce in addition, exports will begin to benefit from the weaker rand, periodiciply after currency hedges are worked off. Given these circumstances earnings in the second half of this financial year could mirror those of the first half.

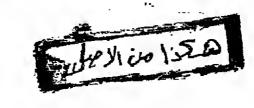
CAPITALISATION SHARE AWARD ANNOUNCEMENT

In the event of shareholders electing to decline the capitalisation share award, mentioned above, the dividend of 70 SA cents will be payable on 19 July 1996. Dividends payable from the London transfer office will be paid in British Pounds Starling or in the case of shareholders resident in the USA in US Dollars, at the respective rates of exchange ruling on 12 July 1996.

Copies of the interent Report will be mailed to shareholders before the end of Mary. Other Interested parties can obtain copies from; UNITED KINGDOM

Independent Registrars Group Limited Bourne House 34 Bectenham Road AR3 4TU

23 May 1996



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CRSDAY MAY MAY

30th May, 1996

Crédit Suisse 8 Pandeplatz CH-8001 Zurich

COMPANIES AND FINANCE: EUROPE

Wella chairman gets to the root of the problem

Costly expansion and acquisitions left little time for promoting core brands, writes Paul Abrahams

ella lost its lustre last year. Tha world's largest supplier of professional baircare products not only suffered a 48 per cent fall in net earnings, but it also lost its chief executive. Its shares have tumbled more than 40 per cent from their peak in July last year.

Mr Jürg von Crausbaar, chairman, concedes much of the blame must be laid at the company's feet. "Our difficulties last year were partly because of weak markets. But the damage was also in-house and self-inflicted," he says. The external factors included

the relentless rise of the D-Mark, which cost the com-pany the equivalent of 4 per cent of sales growth. Poor demand in big markets such as Germany - responsible for a third of turnover - also hit sales and profits.

But Mr von Crausbaar admits an acquisition spree meant management took its eye off the ball. Under the dynamic leadership of the previous chairman, Mr Peter Zuhlsdorff, the company had expanded rapidly through acquisition. In just three years, it bought Los Angeles-based Sebastian, the Sllvikrin and Vosene brands in the UK from SmithKline Beecham, and Muehlens, maker of the 4711

perfume. "They were all good deals in themselves, and they all made money, but we ignored the core Wella brands, and that led to the disastrous results last year," he concedes.

The problems were global. In China, the company set up a tomers, aware of shortages,

large distribution network, but attempted to market inappropriate items, such as styling products. Sales were only half the expected levals, and the subsidiary was crippled by its high cost base. In Russia, management failed to set up an adequate distribution network.

The German group was also slow to meet new challenges. In the US, acquisitions by Bris-tol-Myers Squibb and L'Oréal in the professional haircare sector transformed the studio market. And in the UK, the company was troubled by supermarkets increasingly pushing own-brand products and an aggressive and successful marketing campaign by Procter & Gamble for its Pantene range. Margins tumbled as prices came under pressure and marketing spend

increased. The poor sales performance in 1995 turnover increased only 3.2 per cent, compared with 18.9 per cent the previous year - would have hit profits at the best of times. But Wella compounded its problems by botching a reorganisation of its

manufacturing operations.
The intention was laudable: costs would be saved by cutting the number of European sites manufacturing Wella products from 14 to four. The four sites, two in Germany, the others in Italy and France, would specialise in particular

"Frankly speaking, we made some mistakes. Not least, we did it too quickly," Mr von Craushaar says. Wella ran out of products across Europe, Cus-

... but only through acquisitions ... Sales have grown dragging the shares down Net income (DMm) - ...

92 93

ordered ever greater quanti-ties, exacerbating Wella's difficulties. The cost of contract manufacturing to make up the shortfall hit margins. The acurces of last year's problems have been eliminated, claims Mr von Cranshaar. Currencies, which wreaked such havoc last year, have been neutral during the first quarter. Although the yen's depreciation was significant – Japan is Wella's biggest market after Germany, generating about 8 per cent of sales

- the effect was offset by

the appreciation of other



96 14

Foreign subsidiaries have also been brought better under

control, he says. In China,

management has been

changed, costs bave been

slashed and turnover increased 30 per cent. That should permit

the business to break even this

Russia remains problematic,

but the management has also

been changed and better distri-

bution networks set up. Mr von

Craushaar says the Russian operations should be profitable

in 1998. The UK should also

make money because of new

product launches. The pre-

mium price of the Experience

Jürg von Cranshaar: 'Frankly speaking, we made mistakes'

brand should offset high marketing costs. "We have to concentrate on our strengths," says Mr von Craushear. "We will grow the core businesses." For the most part this will be achieved

organically, he says. Nevertheless, he hopes to set up joint ventures in China and India, and make an acquisition in the US retail market. This will not happen just yet, even though on a global basis the company still ranks fourtb behind L'Oreal. Unilever and Procter & Gamble in the retail

Analysts believe that may be

from just DM375m at the end of 1993 to DM886m (\$576m) at the

end of last year, taking Wella's

net debt-to-equity ratio to 126

But Mr von Craushaar's mea

sured ambitions may hold back

the stock. The company may

struggle to grow, given that most expansion has been

through acquisition. "Mr von

Craushaar looks solid, but not

as dynamic as his predecessor.

His emphasis on organic growth rather than acquisition

suggest the company's perfor-

mance could prove pedes-

trian," says Mr Klaus Ropke,

analyst at James Capel in

The ahares trade on a

1997 price earnings ratio of 17, a significant dis-

count to competitors Beiers-dorf and L'Oreal (excluding its

drugs arm, Synthelabo) which are trading at about 22 times earnings. Oo a price cash

earnings basis (calculating

casb earnings as net profits plus depreciation), the com-

pany is trading at a 50 per cent

discount, according to Mr

Mr von Craushaar hopes the

shares will recover if be can

hit his medium-term targets of

boosting operating profits 25

per cent a year, and pushing

net margins to 4 per cent, com-

pared with 2.1 per cent last

In the meantime, Mr von

Craushaar looks pained as be

examines a graph tracking Wella's share price over the

per cent.

NEWS DIGEST

Sandvik in position to control Tampella

Sandvik, the Swedish toolmaker, yesterday won its bid for control of Tampella by ensuring it will take a majority stake in the Finnish industrial group over the next three years. Just a day after forcing its Swedish rival Svedala to withdraw a SKr14hn (\$205.2m) bid for Tampella, Sandvik announced it had reached an agreement to, in effect, exchange its 25 per cent stake in the Tampella subsidiary Tamrock for shares in the parent company.

Once concluded, the conversion will take Sandvik's stake in Tampella from 48.2 per cent to about 55 per cent. Tampella agreed to buy back Sandvik's Tamrock stake for FM325m (\$68.2m), but only FM3m will be paid in cash. The rest will be m tha form of loans convertible to Tampella ahares.

Sandvik built up its Tampella stake in a series of bilateral purchases from large Tampella shareholders, but under local takeover rules it was never obliged to make a full bid. It paid FM10.90 a share for most of its stake, ahead of the FM10.50 cash value of Svedala's failed offer.

Lufthansa ends Modiluft accord

Lufthansa is ending its relationship with private Indian carrier Modiluft with immediate effect, an official of the German airline said yesterday. "Financial constraints between the two partners that do not conform to internationally accepted and practised business unrms leave Lufthansa un other choice but to move in this unhappy direction," said Mr Dieter Heinen, Lufthansa'a senior vice-president for the Middle East. Africa and Asia-Pacific.

Lufthansa and Modiluft have had a technical co-operation agreement since February 1993. "Our decision is based strictly on commercial principles," Mr Heinen said. He said the German airline continued to believe India would remain one of its most important markets.

Mr Heinen said the decision to break ties with Modiluft would not "jeopardise or undermine any other project we are currently involved in, or plan to undertake in the country in the future". A regional passenger airline, Modiluft started operations in May 1993. It plans to increase its fleet to 12 aircraft from seven over the next few months, and to 25 by 2000. Modiluft operates some 50 flights to almost two doz destinations in India. New Delhi is its main hub, and it has smaller hubs in Bombay and Calcutta.

Vasakronan loan in syndication

A \$200m credit facility for Vasakronan, the Swedish state-owned real estate company which counts Stockholm's opera bonse among its properties, was launched into general syndication yesterday. The five-year loan, the first international facility for Vasakronan, is being arranged by

The loan carries a margin of 22% basis points over the

owering its stake in Vasakronan below 51 per cent.

Vasakronan, whose tenants are mainly government

London interbank offered rate (Libor) and a commitment fee of 11% basis points. Banks taking up \$25m of the loan will earn

government, there is a covenant which prevents the state from

7% basis points. Although the loan is not guaranteed by the

Cement groups battle for Polish production capacity

By Christopher Boblnski in Warsaw

Intense competition by foreign cement producers for Poland's remaining domestically owned capacity is boosting prices for plants and increasing the value of national investment funds set up last year under the country's controversial

mass privatisation programme. Rumeli, a Turkish investment group which has specialised in the cement industry, said last week it wanted to invest \$200m in Poland's cement sector. It is competing against companies such as Holderbank of Switzerland, Dyckerhoff of Germany and RMC of the UK, all of which have yet to establish a substantial foothold

About 65 per cent of the country's 15m-toune cement-producing capacity is controlled by foreign companies,

such as CBR of Belgium and Lafarge of France, which bought plants under the privatisation programme between 1993 and last year. About 10 per cent of capacity remains directly in state hands while 25 per cent, made up of six plants, is controlled by the national investment funds.

Under the privatisation programme, the 15 NIFs have been handed a 33 per cent stake in 512 state sector companies whila each member of the population is entitled to a share in each NIF at a nominal overall charge of 20 zlotys. All the MIFs but one are run by teams of foreign and local investment bankers, with each NIF owning controlling shares in about 35 companies and minority 2 per cent stakes in

producer a 23 per cent share in the plant and valuing it at \$80m.

This price, which corresponds to about \$100 per tonne of cement-producing capacity compares, favourably to tha \$68 per tonne Lafarge paid when it bought a 75 per cent stake in the Kujawy works from the Polish gov-

DM157m (\$101m) CBR agreed to pay in 1993 for a 51 per cent stake in tha Gorazdze cament works and 80 per

Gorazdze has since been listed on

ent for \$46m almost a year ago. It is also more generous than the

cent of the equity in Strzelce Opolskie, which together have about 3m tounes of capacity and provide approximately a quarter of the country's output.

only \$57m for a 75 per cent stake in the Ozarow cement works, giving HCP a tonne of production capacity for about \$50. In another move, the Progress Fund, managed by Raiffeisen of Aus-

Holding Cement Polska, last year paid

tria and W.S. Atkins, a UK consultancy, is poised to choose an outside investor for Nowa Huta, a small cement works in Krakow.

This transaction, which would result in the sale of minority stakes held by the other funds, coupled with a capital increase, is also likely to value the plant at well above prices achieved by the government so far.

The fund managers urgently need such results to show that they are Recently, 12 NIFs sold their minority stakes in the Malogoszcz cement works to Lafarge, giving the French and Elektrim, its Polish partner in works are the scheme is coming to take their supervisory board under fire from the Solidarity trade to court to establish their right to union movement and its right wing, manage the fund.

nationalist, political allies. They argue that foreigners have too great a say in the programme.

in addition, continuing conflicts in some NIFs between government appointed supervisory boards and the managers threaten to undermine a basic tenet of the World Bank-backed programme - that foreign investment banks should be involved.

Decisions on the fate of two other cement producers, Nowiny and Wierzbica, which together account for about 10 per cent of the industry's capacity, are being delayed because of rows inside the NIFs which control them. In NIF No 11, Wasserstein Perella has been told to quit by its supervisory board while NIF No 13 has seen ini Pacine Unres

authorities, from the police to the inland revenue, will use the proceeds of the loan for refinancing and general corporate

Chase and Enskilda.

Zurich Insurance upbeat Zurich Insurance, the Swiss insurer, expects to produce double-digit profits growth this year, as it continues to digest recent US acquisitions, Mr Rolf Hüppi, chief executive, said yesterday. He said new US businesses last year accounted for about one-third of the 13.3 per cent rise in Zurich Insurance's consolidated gross premiums, expressed in local currencies. These included business written by Home Holdings, US associate of Swedish insurer Trygg-Hansa.

Presenting 1995 results, Mr Hüppi said he expected a "favourable contribution" this year from the recently-acquired Kemper US life and asset management companies. However, he said the performance of re-named asset manager, Zurich Kemper Investments, "does not as yet fulfil middle and long-term expectations", although it had been in line with forecasts made during the acquisition's planning stages.

Zurich increased consolidated profits 25.7 per cent to SFr874.1m (\$685.9m) in 1995. After converting into Swiss francs, gross premiums rose 4.8 per cent to SFr26.4bn. Mr Hüppi expected growth in gross premiums of between 8 and 10 per cent this year, expressed in local currencies. He said: "Unless faced with exceptional events in the area of claims or on the capital and foreign exchange markets, I am confident that we will achieve a further improvement in insurance operating return in the current year and a double digit growth

rate in annual profit." Ralph Atkins, Insurance Correspondent

Telecom Eireann profits doubled as mobile business surges Swedish company, and KPN, will provide a further boost to the recently privatised Dutch telecommunications company; and Tele Danmark, the Danish and Tele Danmark, the Danish its debt equity ratio from 1.9 to mark for the first time despite a fifetime despite a feet time despite a feet

By John Murray Brown in Belfast

Telecom Eireann, the Irish state-owned telecoms company which is in negotiations to sell a 35 per cent stake, reported a 137 per cent rise in profits for the year to April 4. This enabled the company to reduce its debt by I£159m (\$248m) despite aggressive price cuts in

most of its services.

The company is in talks with two foreign bidders – a consortium made up of Telia, the

telecommunications company; and Tele Danmark, the Danish

result of the tender for a strategic partner in July. KPN-Tella is understood to have offered an indicative price of 1220m, although TE is

telecoms group. Telacom

Eireann hopes to announce the

hoping the final sale price will be about 1£400m. Tele Danmark is seeking a partner for Tha injection of new equity

Atlas Capital Limited

Notice convening an adjourned meeting on 14th June, 1996 of the Holders of

FF 4,500,000,000

6.375% Guaranteed Notes due 1998

(the "Notes") and the Holders of

FF 4,502,000,000

Guaranteed Floating Rate Notes due 1998 (the "FRNs", together with the Notes, the "Aulas Notes")

Pursuant to a notice published on 7th May, 1996 (the "Original Notice"), a meeting of the holders of Notes and the holders of FRNs lithe "Fixed Rate Noteholders" and "Floating Rate Noteholders", respectively, together the "Noteholders") was held on Wednesday 29th May, 1996 at 10:00 a.m. (London time) at the offices of Bankers Trust Company at 1 Appold Street, London EC2A 2ME (the "First Meeting"). The First Meeting was adjourned through want of quorum.

NOTICE IS HEREBY GIVEN by Atlas Capital Lumited that the adjourned meeting will be held at the offices of Bankers Trust Company at the above-mentioned address on Friday 14th June, 1996 at 10:00 a.m. (London time) for the purposes of possing the Extraordinary Resolutions set out in paragraphs I, II and III of the Original Notice.

VOTING AND QUORUM

The Acks Notes are in Global form. A holder of Atlas Notes wishing to attend and vote at the adjourned roceting in person aust produce a valid voting certificates or voting certificates issued by a Paying Agent or must be a proxy holding a block voting instruction will be issued in respect of the Arke Notes deposited with any Paying Agent or under its control or blocked by a depository holding the same by not later than 10:00 s.m. [London time) on 12th June, 1996. Duly issued voting certificates and block voting instructions will be valid, for at long as the Atlas Notes continue to be so likely and blocked and, while valid, the holder of any such voting certificate or (as the case may be) the proxies named in any such block voting instruction shall be deemed for all purposes in connection with the meetings to be the holder of the Arias Notes to which such voting certificate or blocked voting instruction relate.

Paying Agents Benkers Trust Company 1 Appold Street Broadgate

London EC2A 2HE

1.4 in the year as a result of the borrowing reductions.

Mr Ron Bolger, chairman, said TE was "at last within sight of reducing the debt millstone which has threatened the company'a viability for many

Pre-tax profits rose from 1949m in 1995 to Ig116m. Turnover was up 12 per cent to IEL 09bn, breaching the IElbn

phone traffic, which accounts for 56 per cent of total turnover. It raduced its basic charges to the UK by 50 per cent, and to the US by 64 per cent. These two destinations account for 75 per cent of all international traffic. TE claims to offer the second cheapest telephone rates in Europe, which is one reason for the rapid expansion in telemarket-

Telephone rental accounted for 19 per cent of turnover, and overseas income for 11 per cent. The number of new mobile connections increased 80 per cent to 158,000, compared with 163,000 new fixed telaphone lines, making Ireland the fastest growing mobile market in Europe.

The profit includes a restructuring provision of

NOTICE TO HOLDERS OF

THERMO CARDIOSYSTEMS INC. NON-INTEREST BEARING CONVERTIBLE SUBORDINATED DEBENTURES DUE 1997

NOTICE IS HEREBY GIVEN by Thermo Cardiosystems Inc. ("the

Corporation"), pursuant to Section 7(a)(vi) of the Piscal Agency Agreement dated as of January 5, 1994, as amended, among the

Agent, that, effective as of May 15, 1996, the conversion price of the Corporation's Non-Interest Bearing Convertible Subordinated Debentures the 1997 has been adjusted from \$21.74 to \$14.4933. This adjustment

reflects a three-fortwo split of the Corporation's Common Stock, \$.10 par value per share, to be paid in the form of a 50% stock dividend on May 15, 1996 to shareholders of record as of May 1, 1996.

CHEMICAL

:Hansol HANSOL PAPER CO., LTD U.S.\$37,500,000 Hooring Rate Notes due 1997 outs to subscribe for Non-voting Shores of the Hassel Paper Co., Ltd.

Notice is hereby given that the Rate of Interest for the Interest Period May 30, 1996 to November 29, 1996 has been fixed at 6.08.594% and that the interest payable on the relevant Interest Payment Date November 29, 1996 against Coupon No. 5 will be US\$3,093.69 in respect of US\$100,000 nominal of the Notes.

By: Gifbonk, N.A. (Corporate Agency & Trust), Agent Bank CITIBANCO

If 35m, reflecting the cost of severance pay, after 600 redun-dancies as part of the company's strategic review.

Operating costs were np 6 per cent to I£607m but fell alightly as a percentage of turnover from 58 per cent to 55 per cent, which the company described as an encouraging step in the right direction".

In the next five years, TE plans to cut its pay bill by a third - or IE110m - through early retirement and other

TELECOM

Regissered Office in Turin
Share Capital Lt. 410.200,577,850 tuly paid up
Entered under No. 268995 of the Ordinary Section o
company Register Court of Yurin - Fiscal Code 089478

In accordance with the provisions of Articles 7 and 20 of the regulation approved by Consob decree no. 5553 of 14th November 1991, notice is hereby given that the documents listed below have been deposited at the Company's registered office in Turin, Via Bertola 34 (tel. +39/11/5611936), where the public may consult them or request a copy

- the booklet "Reports and financial statements at 31st December 1995" containing the financial statements at 31st December 1995, the report on operations from the Board of Directors, the report of the Board of Statutory Auditors, the Independent Auditor's certificate;

- the minutes of the Ordinary Shareholders' Meeting of 30th April 1996, approving the 1995 financial statements;

The above mentioned documents have also been deposited with all the offices of the Stock Exchange Council (Consiglio di Borsa) end are aveilable upon request.

E ESTET

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COMPANIES AND FINANCE: ASIA-PACIFIC

Domestic sales drive Mitsubishi Motors

By Michiyo Nakamoto

Mitsubishi Motors (MMC), one of Japan's leading vehicle makers, posted record profits on a non-consolidated basis last year. The result was helped by cost-cutting measures and higher sales in the Japanese market

However, MMC suffered a sharp fall in consolidated profits, reflecting heavy marketing costs related to the launch of its passenger car being manufactured at a joint venture it has with Volvo in Europe, the company said.

Group sales rose 4 per cent from Y3,414bn to Y3,537bn

recurring profits were 41 per cent lower at Y31.3bn. The parent company, how-

ever, increased recurring profits by 15 per cent from Y48bn to a record Y55.4bn on sales down by 5 per cent from Y2,652.5hn to Y2,522.6bn. The better profits were attributed to cost-cutting measures. MMC, which has been suc-

cessful with a smaller version of its popular four-wheel drive model, the Pajero, enjoyed a 6 per cent volume rise in domes tic passenger car sales, includ-ing mini-vehicles with engines of 650cc or under.

The carmaker's growth in the domestic market, where it aims to increase its share from a record 12.5 per cent last year its declined 25 per cent from to 15 per cent in the near Y95.9bn to Y71.9bn, while future, was somewhat

obstructed by the disappoint-ing performance of the Galant, lts mainline passenger car which is approaching a model

change this year. Exports fell significantly due to the shift of production overseas, particularly to the US.
In the US, where MMC has faced a sexual harassment suit brought by a government agency, operating profits improved, the company said.

MMC is injecting capital into its US operations in an attempt to strengthen its financial posi-tion and will be taking a charge to write off the value of its US arm, which has been running at about 60 per cent capacity and bas liabilities exceeding assets by \$400m. MMC said that the passenger car being made at its European Joint venture, the Carisma. had sold firmly in the current year. Against 6,700 units sold last year, when the car was sold in only five markets, the Carisma has sold 6,500 units in the first three months alone of this year. MMC is targeting sales of 60,000 to 70,000 a year after the facility goes into full produc-

tion later this year.

MMC expects sales and profits to rise this year, on the strength of new models being launched as well as continued cost-cutting. Parent sales are forecast at Y2,680bn, recurring profit at Y58bn, and net profit at Y21bn.
• Increased sales of large

trucks with higher profit margins and restructuring helped Isuzu, the Japanese truck maker, post record nonThe strong performance

enabled the company, which is 37.4 per cent owned by General Motors, the US car maker, to wipe out its cumulative losses of Y33.5bn at the end of March. Sales were Y1,222.2bn. recurring profits were Y38.9bn. and net profits were Y44.9bn. The figures are not comparable with those of the previous year, which was a five-month

Isuzu beoefited from firm demand for trucks overall as well as a relaxation of rules to allow for larger capacity trucks. This change in the law eocouraged many companies to buy larger trucks, which have higher profit margins.

term due to a change of year-

Mayne Nickless to dispose of Optus stake

By Nikki Tait

Mavne Nickless. Melbourne-based transportation, security and bealtbcare group, brought to an end months of speculation resterday when it said it would sell its 24.9 per cent stake in Optus Communications, the Australian telecommunications group.

Mayne said that it expected to dispose of the shares when Optus floats on the stock market later this year, unless a prior "acceptable" offer was made for the bolding. Analysis bave indicated that

the telecoms carrier could be valued at A\$3.5bn to A\$4hn (US\$2.78bn-US\$3.2bn), suggesting that Mayne might realise close to AS1bn for its sbares. The seller acknowledged

that its decision might lead to a sbort delay in the timing of the float. Optus also said the float timetable was "still being reviewed" but added that work would continue to pre-

pare the company for a poblic listing this year. "The ownership of Optus has been expected to undergo adjustment as founding sharebolders reviewed their posl-

tions ahead of the float." it The flotetion timing bas already faced one biatus when Mr Bob Mansfield, the former Optus chief executive, left unexpectedly, and a lengthy

snitable replacement. A new chief executive. Mr Ziggy Switkowski, was finally named earlier this month. Optus was formed as Austra-

search was conducted for a

lia's second telecommunications carrier - in competition to the government-owned Telstra group - in the early Mayne is the largest single

shareholder, followed by the LK's Cable and Wireless with 24.5 per cent and BellSonth of the US with a similar stake. The remaining shares are held hy Anstralla-based Institu-

Following the recent As300m rights issue at Optus. Mayne is estimated to bave invested about A\$550m in the telecoms group.

Yesterday, Mayne said it bad

"We want to control our destiny and we will not achieve that through passive investments," Mr Bob Dalziel, managing director, said.

NEWS DIGEST

Write-back behind rise at Indian bank

The Industrial Credit & investment Corporation of India, the country's leading development bank, yesterday announced an after-tax profit of Rs-1.74bn (\$135m) for the year to end-March. This compared with Rs3.9bn in the previous year, a rise of 21 per cent. The profit was, however, boosted by extraordinary income of Rs380m represented by the write-back of excess provision for depreciation on leased assets in earlier years. CICI's total income was up 23 per cent from Rs23.64hn to

Earnings per share on fully diluted basis were up 20 per cent to Rs14.1. against Rs11.8 last time. The annual dividend goes up from Rs3.5 to Rs3.7 a share.

ICICI said that while the average cost of funds rose from 10.7 per cent to 11.4 per cent, the average yield on funds in deployment remained unchanged at 14.9 per cent. "The full impact of the interest rate hikes on the lending rates bas not been felt in 1995-96." according to the company. The net spread dropped from 3.47 per cent to 2.93 per cent as a result. The provisions and write-offs towards bad and doubtful

debts declined from Rs940m to Rs630m. The share of non-performing assets fell marginally, from 6.9 per cent to 6.7 per ceot. ICICI's capital adequacy ratio at the year-end was

Bank Indonesia yankee offering

Indonesia's central bank is preparing to launch its first bond offering in the vankee bond market - the US domestic bond market for foreign issuers - in order to establish a benchmark

for future bond issues from the private sector.

Salomoo Brothers bas been appointed lead manager for the issue with Goldman Sachs, J.P. Morgan and Merrill Lynch acting as co-managers. Details of the yankee bond have not er been decided but market sources say the central bank plans to raise between \$250m and \$350m. The fixed-rate bonds will have a maturity of between seven and 10 years.

The offering will be registered with the US Securities and Exchange Commission. Bank Indonesia says the bond sale is 'experted as early as July, subject to market conditions". Analysts say the offering will carry indonesia's sovereign credit rating: Standard & Poor's foreign currency rating on

indonesia is triple-B while Moody's investors Service rates indooesta's long-term foreign currency is Baa3. The planned bond sale is a departure from Bank Indonesia's usual policy of seeking interoational financing through a

stano by loan facility. The Indonesian government does not issue bonds on the domestic market. Earlier this year Bank Indonesia raised \$500m through an eight-year syndicated bank loan under its \$2bn stand-by

facility. Under this system, Bank Iodonesia has constant access to a maximum of \$2bn through a syndicate of Monuela Saragosa, Jakarta international banks.

Goodman in Vietnam re-think

The Australian Wheat Board said yesterday that it understood Goodman Fielder, Australasia's largest food manufacturer. was looking to pull out of its flour mill joint venture in Vietnam, and sell its 52.5 per cent interest in the project.

The joint venture was set up in 1991, with the AWB bolding a 17.5 per cent stake and Vifon, a Vietnamese noodle manufacturer, baving a further 30 per cent. The AWB stressed that It remained committed to the project. The AWB said It bad been advised that Goodman's withdrawal came as part of a retrenchment from "a number of ... projects in Asia" so It could concentrate on its core business. Nikki Toit, Sydney

l'oshiba promotes vice-president

Toshiba, one of Japan's leading integrated electronics groups, is to promote its executive vice-president, Mr Taizo Nishimuro. to president in succession to Mr Fumio Sato. Mr Sato will become chairman to replace Mr Joichi Aoi, who will become an adviser to the electrical giant.

meeting of sharebolders and a meeting of the board on June 27. Mr Šato has served as president for two two-year terms. Mr Nishimuro joined Toshiha in 1961 and has been executive vice-president since last June.

Australia, Korea in SE accord

exchange follows a similar agreement between the ASX and Kuala Lumpur Stock Exchange earlier this month. Nikki Tait

Siam Cement **shows 20%** growth in first quarter

By Ted Bardacke in Bangkok

Siam Cement, Thailand's largest industrial conglomerate, reported strong firstquarter net profit growth vesterday, despite a drop in earnings at its cement business.

Consolidated net profit in the first quarter rose 20 per cent over the same period last year to Bt2.64bn (\$104m). Cement profits fell 23 per cent in the same period to Bt869m. Bnt as cement accounts for only 34 per cent of total sales, the company was able to withstand the fail.

Analysts said a strong showing from the antoparts. tyres and other huilding materials branches of the company, which account for about 36 per cent of sales, helped support earnings growth.

By contrast, first-quarter profits at the smaller Slam City Cement, where cement accounts for 75 per cent of sales, fell 39 per cent to Bt444m, the company reported

Slam Cement's stock rose Bt12 to close at Bt1,204. Slam City Cement's stock fell Bt12 to close at Bt336. Both were among the most actively traded stocks in Thailand yes-

Proceeds from sales of investments, which grew from Bt3.96m in the first quarter of 1995 to Bt372.5m in the first quarter of 1996, also belped currency transactions went from a loss of Bt3.06m to a

gain of Bt15.8m. Total revenues were ahead 9 per cent to Bt26.2bn, while total costs grew by 8 per cent to Bt23.5bn. The company also made an accounting change which booked income from 16 subsidiaries in lis consolidated income statement. As a result of this change, consolldated total assets rose by about

Metrobank lifted by loan growth

Shares in Metropolitan Bank & Trust Co (Metrobank), the Philippines' largest private-sector bank, soared to a record high yesterday after the company said that net profits grew by 66 per cent in the first four months of 1996.

Metrobank shares closed at 795 pesos yesterday, more than 10 per cent up on the previous week and double the price that they were trading at in January. The bank said net profits rose from 816m pesos a year earlier to 1.35bn pesos (\$51.6m), with rapid growth in its loan portfolio cootributing to the boost in earnings.

The company, which posted net profits of 3.5bn pesos last year. 39 per cent up on 1994, said its oet portfolio lending grew by 59 per cent to 100.8bn pesos during the four months to April Interest income rose per cent to 4.57bn pesos owing to higher spreads betweeo savings and lending rates, while interest expense growth slowed to 15 per cent in

the same period. Analysts, who point out that Metrohank's deposit base which grew 14 per cent to 102hn pesos in the first four months - is expanding at a much slower rate than its loan portfolio, say it is unlikely Metrobank will maintain this rate of expansion in the medium term. Metrobank's loan-to-deposit ratio increased

per cent in the past 12 months "There is good reason to question the speed of Metrohank's loan expansion and the banking sector's loan growth in general," Mr Lucio Soso chief researcher at All Asia Capital in Manila, said yesterday. "The question to ask is: where is all the new money coming from?' because obvi-ously not all of it is coming

Analysts also say that with a price to book value of about 2.5 to 3 times (a more informative indicator of banks' share value than the price/earnings ratio) Metro's shares are already trading at a peak.

The rapid monetisation of

deposits, some analysts said.

Metropolitan Bank & Trust

from 70 per cent to almost 100

the Philippine economy, how-ever, and the fact that a large share of Metro's revenues are ploughed back into branch expansion in the provinces where deposits growth is traditionally higher - suggests there is more mileage in new

from deposit growth.

Current share price 1982 93 94 95 98 SHARE PRICE EARNINGS PER SHARE relative to the Manila Composite

"Metrohank is not overexposed to any one sector only 15 per cent of its loans are to property lending, for exam-ple," said Mr Jo Jo Gonzalez, chief researcher at Jardine

"Nor is Metrobank's loan growth coming from dollar borrowing but from the interbank markets, implying that there is less cause for worry than might be sup-posed."

Mr Tajudin attributed the

MAS disappoints despite 67% rise

By James Kynge

Malayslan Airline System yesterday announced a 67.3 per cent jump in full-year net proftunes at the former state carrier which was bought in 1994 a telecoms entrepreneur

with no airline experience. M\$139.27m a year ago to M\$233.03m (US\$93.3m) in the 12 months to March. Pre-tax profit was M\$251.16m. up 67.6 per cent, on turnover ahead 17.6 per cent to M\$5.71bn. Earnings per share rose from 19.9

cents to 33.3 cents.

of the airline's owner, Malay-

Group net profit rose from

The core company's net

profit was M\$218.11m, up 61.3 per cent, on turnover ahead 6.3 per cent at M\$5.63bn. Mr Tajudin Ramli, chairman

slan Airline System Berhad, said costs had been cut and new routes obtained through agreements with other airlines allowing under-used aircraft to spend more time flying.
"We had to get the planes in

the air for longer each day," said Mr Tajudin, who bought the government's 32 per cent stake in August 1994 and set about trying to boost earnings per share from 1.2 cents on a

group net profit of M\$8.4m in the year to March 1994. Code-sharing agreements

with the UK's Virgin Atlantic, Ansett Australia and Canadian Airlines International provided new routes and belped raise average daily flying times from 11 to 13 hours for Boeing 747s for Boeing 737s.

capacity grew hy 28.6 per cent to 5.38bn tonne-kilometers, hut the overall freight/passenger load factor dropped 1.7 percentage points to 62.3 per cent. However, analysts were disappointed with the results. They pointed to the fact that

the airline's interim pre-tax

profit was M\$150m, prompting

many to hope for a full-year profit of M\$300m.

ductivity was Total freight and passenger group's 20,000 staff.

The airline's M\$6.8bn debt private placement of 70m new ordinary shares this month reduced the debt to equity ratio from 1.8 to 1.6 times. Mr Tajudin said the company was interested in an equity infusion from a foreign company.

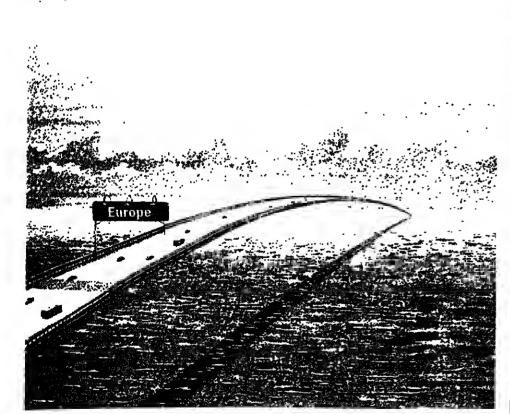
second-half slowdown to a M\$70m payment for salary increases and a slight rise in fuel costs. He added that a process of cost cutting and raising continuing but said this would not result in redundancies among the

remains the higgest problem. A partly to cut debt and partly to further expand routes.

However, the Optus stake always sat oddly alongside Mayne's core business, and speculation that it might sell ont bas surfaced on several occasions.

decided to focus on its core businesses, and indicated that it hoped to announce expansion opportunities for its bealthcare business overseas in the near-future.

The Australian and Korea Stock Exchanges have signed a memorandum of understanding, designed to formalised communications lines and facilitate the flow of information between the two organisations. The MoU with the Korean



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Coles Myer settles litigation with former finance director

Coles Myer, Australia's biggest retailer, said yesterday that it had settled its litigation with Mr Philip Bowman, its former finance director. Mr Bowman's acrimonious departure from the company last year led to questions about corporate gov-ernance standards at the retailer and prompted institutional investors to pusb for

Coles said it had agreed to pay Mr Bowman A\$1.425m (US\$1.13m) for his termination of employment action, and to reimburse him for bis legal costs, which total a further

Each party has agreed to

against the other, with Mr Nobby Clark, Coles' oew chairman, saying he wished Mr Bowman well for the future. Mr Clark added that he had found Mr Bowman "to be a person of complete integrity and

The legal battle was sparked last year when Coles sacked Mr Bowman in September, alleging that he had breached its code of conduct by disclosing confidential company information to third parties. Mr Bowman, in turn, sned Coles, claiming he had heen dismissed because of his inquiries into the so-called "Yannon

transaction". This was a complex deal, dat-

ing from 1990, which cost Coles about A\$18m and benefited interests associated with Mr Solomon Lew, Coles' former chairman, by a similar

As more revelations about the Yannon deal emerged, the institutional pressure mounted - culminating in boardroom upheaval.

Mr Bowman had been

finance director at the UK's Bass group before joining Coles, and has kept a low profile throughout the legal battle. However, bis solicitor was reported vesterday as saving his client planned to return to Australia soon to look for a new position now that the case had been settled.



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NOTICE TO HOLDERS OF THERMO ELECTRON CORPORATION 41/1% SENIOR CONVERTIBLE

DEBENTURES DUE 1997 NOTICE IS HEREBY GIVEN by Thermo Electron Corporation ("the Corporation"), pursuant to Section 7(f)(III of the Fiscal Agency Agreement dated as of July 29, 1992 between the Corporation and Thomical Bank, as Fiscal Agent, that, effective as of June 5, 1946, the conversion price of the Corporation's 4126 Senior Convertible Debentures due 1997 will be adjusted from \$21 50 to \$14.3331 This adjustment reflects a three-for-two split of the Corporation's Common Stock, \$1,00 par value per share, to be paid in the form of a 50% stock dividend of June 5, 1996 to shareholders of record as of May 22, 1996.

> CHEMICAL Fiscal Agent

THE ROYAL BANK OF CANADA U.S. \$350,000,000 Floating Rate Debettures due 2005 Conditions of the Debentures, the

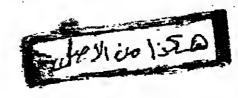
Conditions of the Debentures, the interest rate for the period 31st May, 1996 to 29th June, 1996 has been fixed at 51% per annum. On 28th June, 1996 Interest of U.S. \$4,27777 per U.S. \$1,000 nominal amount of the Debentures will be due for payment. The rate of interest for the period commencing 28th June, 1996 will be determined on 28th June, 1996.

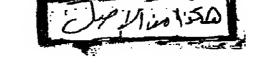
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COMPANIES AND FINANCE: THE AMERICAS

Texas Instruments chairman dies at 58

By Louise Kehoe in San Francisco and Paul Taylor in London

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Jerry Junkins, chairman, president and chief executive of Texas Instruments, died suddenly yesterday while visiting customers and employees in Germany. He was 58.

Junkins had beaded Texas instruments, one of the world's largest semicooductor chip producers, since 1985, when he was made president and chief executive. He became chairman in 1988. During his tenure at TI the

company's revenues more than doubled, from about \$6bn to more than \$13bn. TI greatly expanded its international operations, establishing a semiconductor joint venture with Acer io Taiwan, building a large chip plant in Italy and a joint venture with Kobe Steel in Japan, and a joint venture in Singapore with Hewlett-Packard and Caoon. TI also recently announced the formatioo of a joint venture in Thai-

Junkins was credited with stabilising TTs financial performance by balancing its role as one of the world's leading producers of dynamic random access memory cblps - a highly volatile commodity with the development of new "differentiated" semiconductor products such as digital signal

processors for multimedia



Jerry Junkins: TI's revenues more than doubled, from about \$6bn to more than \$13bn, during his tenure

the company's retrenchment in the defence electronics sector.
Mr Pat Weber, formerly president of TI's semiconductor division, and Mr Bill Mitchell. formerly president of the group's systems and equip-ment operations, who have shared the office of chief executive with Junkins for the past three years as vice-chairmeo of the group, will take over responsibilities for day-to-day

operations in the short term. The office of the chief executive had "operated as a team", Mr Mitchell said, so there would be no disruption of operations, or immediate

Jerry Junkios' death "had been a great shock. There is very great sadness throughout the company," said Mr Mitchell. Junkins commanded the affection, as well as the

in the computer and semiconductor iodustries as well as among the many community projects in which he had been involved. A committed "free trader",

Junkins was active in promo-ting the passage of Gatt and Nafta agreements. He had recently undertaken a speaking tour of the US as co-chairman of the Business Round

respect, of colleagues and peers Table, to bolster support for free trade among small business executives. He feared that politicians on the "far right and left" could undermine US support for free trade and believed business leaders like himself had a duty to persuade their peers of the advantages of open trade.

> Junkins was a member of ter & Gamble and 3M.

Seagram slides 61% despite rise in revenues

By Tony Jackson in New York and Robert Gibbens in Montreal

Seagram, the Canadian drinks and entertainment group, saw net income from continuing activities fall 61 per cent in the first quarter to US\$23m, despite a near doubling in revenues as a result of acquisi-tions. Cash flow rose 50 per cent to \$304m.

Cash flow from the MCA entertainment business. acquired last year, was down 17 per cent on a like-for-like basis at \$108m, on revenues 1 per cent lower at \$1.1bn. Cash flow from films surged from \$43m to \$109m.

However, the music division showed a cash outflow of \$13m compared with a \$50m inflow, as a result of a 27 per cent fall in revenues to \$228m and continued beavy invest-ment in new artists and

Cash flow from the spirits and wine division was down 9 per cent at \$148m on revenues up 2 per cent at \$958m. The global market remained difficult, Seagram said, though it saw a strong performance from some brands such as Martell cognac, Mumm Sekt and Absolnt vodka.

There was some recovery from previous weakness in European wines and spirits. particularly in Germany and Portngal. However, this was offset by a downturn in North America and the Asia-Pacific

The eoft drinks division increased its cash flow 17 per cent to \$48m on sales up 20 per cent at \$483m. This was helped by the acquisition of the Dole fruit juice business, but also reflected continued growth at Tropicana.

The net earnings figure was affected by sharply higher taxes - \$50m against \$22m despite a 9 per cent fall in pretax income to \$74m. Net earnings from continuing operations were 6 cents per share, compared with 16 cents.

At the company's annual meeting in Montreal, Mr Edgar Bronfman, chairman, referated an earlier warning that no financial improvement was expected until the start of the financial year, which is being moved to July 1.

He said the benefits of reengineering in the wines and spirits division would not be felt until then. Seagram would sell its 15 per cent interest in Time Warner at the opportune moment, be added. Seagram paid \$2.2bn for the shares.

US, Canada airlines close to service link

American Airlines and Canadian Airlines International were yesterday granted "tentative" antitrust immunity by the US department of transportation, allowing the two carriers to integrate their US-Canada air services. The department said it would make a final decision after June 4.

Canadian Airlines International is 33 per cent owned by AMR, American Airlines parent, and the two already share codes on cross-border flights. Under the new agreement the two carriers will fully integrate their cross-border services while retaining their separate corporate and national

The department said final approval of the deal would allow American Airlines to compete more effectively with other carriers and alliances in the US-Canada market, which was deregulated last year. American Airlines applauded the move, saying it would allow the US-Canada "open skies" agreement to reach its full potential. Richard Tomkins, New York

New finance chief for Colgate

Colgate Palmolive said Mr Robert Agate, 60, its chief financial officer would retire on July 1, to be replaced by Mr Stephen Patrick. Mr Patrick is currently vice-president and corporate AFX News, New York

Ericsson in San Francisco deal

Ericssoo, the Swedish telecoms equipment group, has won an order from Personal Technology Services (PTS) to deliver SuperCordless, a low-tier PCS (personal communications service) telephone system in San Francisco in 1997-2000. The first-year value of the agreement was estimated to be \$50m, Ericsson said. The order is cootingent on PTS acquiring PCS liceoces in an auction, lt said. AFX News, Stockholm

Novell slips into red after distribution policy change

By Paul Taylor

Novell, the world's leading supplier of personal computer networking software, posted a second-quarter loss yesterday, as expected. This followed changes in product distribu-tion policy announced this

The changes - which reflect the switch in customer purchasing behaviour in favour of site licences rather than boxed software - reduced worldwide inventories held by resellers and distributors by about \$225m, and reduced shipments by a corresponding amount. As a result, the group

April 27 compared with earnings of 26 cents a year earlier. Revenues declined to \$188m from \$530m a year ago when the figures included \$149m of revenue from the applications software and UnixWare operations which were sold

reported a 15 cents a share net

Novell



May 1995 :

during the first half. The sale of the applications software, processing programme, to Corel of Canada was completed in March and led to a secondquarter pre-tax gain of \$20m. or 4 cents a share.

Second-quarter revenues were boistered by strong corporate sales of the group's Net-

Ware 4.1 product and its GroupWise electronic messaging software which accounted for £10m (\$15.1m) of revenue.

"In a single quarter we achieved our very aggressive objectives of both completing our sale to Corel and dramatically reducing and rebalancing Novell product inventory in our worldwide distribution channel," said Mr Robert Fran-kenberg, chairman and chief Mr Frankenberg said Novell

share in the enterprise, or corporate-wide, segment of the networking market and said the sale of the applications software business had enabled group to further operating expenses.

months earlier.

was continuing to gain market

The group ended the period with cash and short-term investments totalling \$1.2bo, compared with \$1.3bn six Shares in the group fell \$1/4 to \$14% in early trading.

Canada up 12%

Royal Bank of

By Bernard Simon in Toronto

Record investment banking income and lower loan-loss provisions helped Royal Bank of Canada, the country's biggest financial institution, to a 12 per cent advance in secood-quarter earnings.
Although yesterday's results

were slightly above analysts' forecasts, earnings were 4 per cent below the previous three months. This reflected a shorter quarter and lower proceeds

from the sale of bonds to developing countries. Net income rose to C\$340m (US\$247m), or 97 cents a share, in the three months to April 30, from C\$304m, or 83 cents, a year earlier. Return on equity climbed to 17 per cent, from

was unchanged at 0.73 per cent. Loan loss provisions fell to C\$110m, from C\$140m.

16.3 per cent. Return on assets

The bank's portfolio of non-performing loans on April 30, totalling C\$633m, was 14 per cent lower than on January 31. The drop in non-performing loans was almost entirely a result of an improved commercial property portfolio. Several Canadian banks

have pared their property holdings recently by selling off some of their most troubled A feature of the latest results was a doubling in capital

market fees to C\$189m, reflecting a record performance by RBC Dominion Securitles, the bank's investment banking arm. Earnings from mutual funds Assets totalled C\$199.5bn on

April 30, up 14 per cent, including a 7 per cent rise in the bank's loan portfolio. Royal's share price was unchanged at C\$32.85 in early trading on the Toronto stock

exchange yesterday.

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Theory and Policy

FIDELITY FUNDS SICAV Société d'Investissement à Capital Variable Kansallis House - Place de l'Etoile L-1021 Luxembourg R.C. No B 34036

Fidelity Funds Sicav has declared an interim dividend in respect of shares of Fidelity Funds - Sterling Bond Fund in issue at the close of business on April 30, 1996, of £0,0045 pounds sterling per share. In the case of registered shares, dividends will be paid or reinvested in additional shares of Sterling Bond Fund, as appropriate, on June 12, 1996; dividend cheques not cashed within 5 years will lapse and the dividend will revert to Fidelity Funds.

In the case of bearer shares, dividends will be paid to holders of bearer shares in sterting (or by arrangement with the Paying Agent and at the cost of the shareholder, in any other currencyl against tender of the relevant coupon (coupon n° 22) to: Paying Agent in Luxembourg

BANKERS TRUST LUXEMBOURG S.A. P.O. BOX 807 14, BOULEVARD F.D. ROOSEVELT Paying Agent in France

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Paying Agent in Sweden Svenska Handelbanken Blasieholmstog, 12 10670 Stockholm

Fidelity [3] Investments

Acer Incorporated (Incorporated as a company limited by shares in Tawan, Republic of China) US\$45,000,000

4 per cent. Bonds due 2001 ("Bonds") mamber of Citibank Taipei of our "Notice to Holders of Acer Incorporated US\$45,000,000 4% Bonds Due 2001" that was published on May 13, 1996, the corrected version rends as follows:

NOTICE TO BONDHOLDERS

Citibank, N.A., Talpel Branch
Attn : Ms. Bernice Wang
Address : No. 52, Mug Sheng E, Rd., Sec. 4, Taipei, Taiwan, ROC
Tel. No. : 886-2-547-8300
Telex No. : 112-43 Cuibank
Fax No. : 886-2-718-0730 or 886-2-545-7009

May 30, 1996.

CITIBANCO

CREDIT COMMERCIAL DE FRANCE
FRF 600,000,000
REVERSE FLOATER BONDS DUE 1997
ISIN CODE: X50040688151
For the period May 28, 1996 to November 26, 1996 the new rate has been fixed at 14,78021 % P.A. Naxt payment date: November 26, 1996
Coupon n°: 7
Amount: FRF 734,90 for the depomination of FRF 100 000
FRF 73 490,49 for the danomination of FRF 100 000
FRF 73 490,49 for the danomination of FRF 100 000
Pursuant to the Tarms and Conditions of the Bonds, notice is hereby given to the Bondholders that FRF 4,050,000 have been purchased. Nominel outstanding: FRF 100,950,000
THE PRINCIPAL PAYING AGENT
SOCIETE GENERALE RANK & TRUST
LUXEMBOURG

Notice of Early Redemption to Holders of Series J

RSVP City Limited U.S. \$271,000,000

Guaranteed Extendible Variable Rate Notes due 2006/2007 NOTICE IS HEREBY GIVEN that in accordance with Section 5.03(a) of the Indenture, dated 26th September, 1900, Settle 1 of the U.S. 5271,000,000 Guaranteed Extendible Variable Rate Noves she 2006/2007 of RSVP Cry Limited (in the Bonds') will be redeemed in full by RSVP City Limited on the Interest Payment Date falling on 27th June, 1996 at their Principal Amount outstanding out that date together with interest account to the Date of Redeements.

Bunkers Trust Lineambourg S.A. P.O. Box 807 14 Brudevird F.D. Rossevch 1-2450 Lineambourg Pankers Trust Company
1 Appelli Street Envadente London EC2A 2HE interest shall cease to accrue on the Bonds from 27th June, 1996.

Bankers Trust

30th May, 1996

Principal Paying Agent

275,000,000 **HMC FINANCING 3 PLC** Class A Mortgage Backed Floating Rate Notes due December 2018 Notice is hereby given that there

with be a principal payment of \$2,080.00 per Note on the interest payment date June 17, 1996. The principal amount outstanding per Note will be \$25,056.49. By: The Citase Manhathan Benk, N.A. Landon, Agent Bank May 30, 1996

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RATE NOTES 1936
ISIN CODE: XS0015046062 For the period May 29, 1996 to August 29, 1996 the new rate has been fixed at 3,98437 % P.A. 3,98437 % P.A.
Next payment date:
August 29, 1996
Coupon nr: 27
Amount: FRF 101,82 for the
denomination of FRF 10000
FRF 1 016,23 for the
denomination of FRF 100000
THE PRINCIPAL PAYING
AGENT
SOCETE GENERALE
BANK & TRUST
LUXEMBOURG

HMC MORTGAGE NOTES 11 PLC Floating Rate Notes due 2021

Notice is hereby given that there will be a principal payment of 24,900 per £74,990 Note on the interest payment date June 14, 1996. The principal amount outstanding per Note will be £70,090. By: The Chese Manhattan Bank, M.A. London, Agent Benk May 30, 1996

Our

Royal

Brotherhood

From June 1st, AssiDomān Kraft Products will be responsible for the marketing of the products of the Czech company Sepap in Štěti.





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BANCO CENTRAL DE LA REPUBLICA DOMINICANA COLLATERALISED DISCOUNT BONDS DUE 2024

In accordance with the provisions of the Fiscal Agency Agreement, notice is hereby given that for the six month Interest Period Irom May 30, 1996 to November 29, 1996, the Bonds will carry on Interest Rate of 6.4375% p.a. and the Coupon Amount per U.S.\$1,000 nominal of the Bonds will be U.S.\$32.72. By. Calbonk, N.A. (Corporate Agency & Trust), Agust Bank CITIBANG

the control of the co

NATIONAL BANK OF GREECE RECRUITMENT OF SPECIALISED PROFESSIONALS The National Bank of Orecce invites applications for twelve positions of specialised professionals. The applicants should have an excellent knowledge of English and Modern Greek and should be born after January 1st, 1958. Knowledge of a third

A. POSITIONS AND ACADEMIC QUALIFICATIONS mic and Monetary Analysis - Econ

Econometrics and modern quantitative met and Forecasting
Macroeconomic Theory and Policy One position in Monetary Theory and Policy, and Domestic and I Figureial Markets

Applicants should have a Ph.D. degree in the above fields, a record of publication in established international academic journals, previous academic/professional experience and an excellent background in economic models and corresponding

Four positions in Finance, Financial Derivatives, Foreign Exchange, Money and Capitol Markets, Theory and Practice of Portfolio Management, Investment Bonking, Theory and Practice of International Banking and Finance.

Applicants should have a Ph.D. degree in the above fields, a record of academic

oblications, previous academic/professional experience and an excellent nowledge of economeric models and corresponding software packages. Equal onsideration will be given to applicants with have a two-year MBA or MAequivalent degree, significant previous professional experience, strong quantitative skills and excellent knowledge of relevant software packages.

Financial and Administrative Accounting, Analysis and Management of

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Three possions in Balance Sheet and Indices Analysis, Gudgeling, Financial Risk Management, Corporate Finance.

Applicants should have a Ph.D. degree in the above fields, previous professional experience and an excellent background in econometric models and software packages. Equal consideration will be given to applicants with a two-year MBA or MA-equivalent degree, <u>nignificant</u> previous professional experience, strong quantitative skills and excellent knowledge of software packages.

International Auditing and International According One position in Bank Supervision and International Ganking Controls and

Applicants should have a two-year MOA or MA-equivalent degree and professional experience. For International Auditing, fluency in a third language, besides Greek and English, would be an advantage.

B. INTERVIEW Shortlisted candidates will be interviewed before a Selection Committee in Athens, as a time and place to be notified to them by letter. successful candidates shall be offered a three-year contract and a satisfactory enuneration package depending on their overall qualifications and experience, with

owners after the three-year period, C. APPLICATION PROCEDURE

Candidates are invited to submit: (i) a letter explaining which position they wish to apply for (ii) a curriculum vitae with their address and phone number (iii) three reference letters from previous employers or university p

(iv) copies of university degrees and transcripts (v) copies of their most imp ortant publications, if any Applications and other supporting documents may be sent by registered mail to: NATIONAL BANK OF GREECE, S.A.

PERSONNEL OIVISION RECRUITMENT DEPT. 4-B-31 (For the attention of Mrs Gournas
Re: SPECIALISED STAFF RECRUTTMENT) 86. Eolou Street, Athens 162 32 - GREECE Tel: ↔ 301 · 334.1321 or 321.1058 Fax: ↔301 - 321.9978 or 324.7798

The application should be postmarked no later than Monday, July 1, 1996

LEX COMMENT

Carlton

Cartton Communications

FT-SE-A AH-Share Index

Carlton went the best way about persuading investors

not to expect a mega-deal

vesterday, by demonstrating the organic growth it can

achieve. The group's broad-

Carlton beats City expectations with £143m

By Raymond Snoddy

Record programme sales of £72m belped to pusb Carlton Communications, the broad-casting and media services group, to better than expected pre-tax profits of £143.3m (\$217.8m) for the six months to the end of March.

The 19 per cent increase, on turnover up by 6 per cent to £847.8m, underlines Cariton's growing strength as a maker

and seller of television programmes although more than three quarters of the pro-gramme sales are to the ITV

"Carlton is now one of the largest programme makers in the UK with the expertise and resources to compete on a global scale," Mr Micbael Green, chairman of Carlton said yesterday.

Carlton, which owns both Carlton Television in London

aaid It was providing more than a quarter of the autumn, winter and spring ITV schedule, with dramas such as Sharpe, Kavanagh QC. Bram-well, Cadfael and Peak Prac-

Through Carlton Books. TV tie-ins have been launched and a book devoted to Sbarpe is in the WH Smith best sellers lists. Mr Green explained that increased programme produc-

tion, associated merchandising deals and taking stakes in new channels around the world would be central to Carltoo's future strategy. Earlier this week Carlton

and partners such as the Hindustan Times and Pearson, owner of the Financial Times, launched a new satellite entertainment TV channel in India. All the signs are that Carlton will not be a buyer of ITV com-

Television at current prices. Under broadcasting legislation now going through the House of Commons, Carlton could probably buy both and still per cent of total audience. Carlton looked carefully at

mounting a hostile takeover bid for MAI, the broadcasting and financial services group now merged with United News and Media, hut decided the price was too high. The same is

likely to apply to the remain-ing ITV companies not already part of larger groups.

Analysts yesterday moved up their estimates for the full year to forecast pre-tax profits of between £290m-£300m. Carlton sbares, which bave risen by 30 per cent in the past 6 months went up 3p yesterday to finish at 481p.

Earnings rose 18 per cent to 13.8p and the divideod rose 17.5

WH Smith ready to put DIY chain up for sale

By Christopher Brown-Humes

WH Smith, the high street retailer is set to signal a readiness to sell Do lt All, its lossmaking DIY chain, when it presents the results of its strategic review next month.

"Do It All is a transaction waiting to happen," said a source close to the company. "The long-term view is that the market is over-supplied and given the right offer, the group would he very interested in selling."

However, WH Smith maintained it was under no immediate pressure to dispose of the unit - jointly owned with Boots - as sales had recently picked up amid signs of revival in the UK housing market.

Although Boots is the obvious purchaser, it is thought unlikely that the chemists group would want to deepen its DIY involvement.

Other UK DIY groups, who may be interested in at least some Do It All outlets, are B&Q, part of Kingfisher, and Homebase, the Sainshury subsidiary, Castorama, the French retail group, is also believed to have held talks with the

The City has made little secret of its helief that WH Smith should sell or close Do It All, claiming the issue is the most urgent one to he addressed in the strategic review initiated by Mr Bill Cockhurn, the new chief execu-

All's losses deepeoed from £3m to £7.7m (\$11.7m) in the 31 weeks to January 6, as like-forlike sales slumped 3.2 per cent. Analysts believe Do lt All could have lost up to £30m in the year to May.

WH Smith has ruled out a closure of the 195-strong chain. arguing it would be excessively costly. It would face 15 years of outstanding leases and significant redundancy and stock write-off costs,

Some analysts have suggested the total costs of closure could exceed \$200m.

WH Smith and Boots have made it clear that their current priority is to reduce the losses and cash oemands of about 130 revamped Do lt Ail stores. while closing 60 stores in poor locations. The revamped stores are believed to be close to cash hreak-even. They have henefited from strong Easter trading and improved market

WH Smith instigated its operational review in January, after a second profits warning in a year. Interim profits dropped from \$45.2m to \$17.3m. in April, the first fruits of the initiative were apparent, wben the group unveiled plans to sell its husiness stationery arm to Gullhert of France for

Analysts say the review will be aimed at increasing group profitability and refocusing the group's 550-strong high street chain.

casting divisioo may bave ground to halt, with advertising revenues flat in the six months to March, but its other businesses are powering ahead. The unfashion able video duplication operation achieved double digit growth and produces sub-

stantial cash flow. And with the mass market launch of digital video discs beyond the horizon, technological obsolescence remains a distant threat; besides, Carlton has the technology to produce the new discs. Furthermore, film duplication is benefiting from the trend for studios to release films to a much wider number of cinemas; the division achieved 33

per cent profits growth, and should continue to shine. Of course, with over £100m of uet cash on its balance sheet and a steady conversion of convertible debt into equity, Carlton is well placed to ride the wave of media mergers. But it is signalling - probahly, only slightly disingenuously - that it will not pay current UK prices, when it has plenty of opportunities in its existing portfolio. Indeed, Europe is a more likely area for expansion. And if Bertelsmann's proposed merger with CLT falls at a regulatory burdle, Carlton would be likely to throw its hat into the ring for the Luxembourg based media group. With profits forecast at £300m for the current year, Carlton's shares are trading at a price-earnings ratio which is 13 per cent higher than the market, but is modest for the media sector. It deserves better.

Kalamazoo makes \$33m purchase to expand in Europe

By Richard Wolffe, dlands Correspondent

Shares in Kalamazoo Computer Group rose 28p to 143p vesterday after it released an upheat trading statement and announced a \$33m acquisition to expand lts computer systems operations in continental Europe.

Kalamazoo said it had conditionally agreed with Datapoint Corporation of the US to huy Its activitles in European automotive dealer systems (EADS), to he funded partly by a placing and open offer. The rights issue - helleved to be the first in the company's 100-year his-tory – will raise about £7.5m net of expenses.

Kalamazoo said EADS was an Ideal complement to its UK business, which is the market eader in supplying computer in the first half of the year. systems to motor dealers. Both are partners with Ford, which is developing a new European computer system with Kalama-200 in the UK and EADS in Germany.

Mr Bob Jordan, chairman, said: "This perfectly positions Kalamazoo to provide pan Eu-

ropean IT solutions to leading motor manufacturers. Following the acquisition, we will become the market leader in automotive dealer management systems in Europe."

The acquisition relnforces Kalamazoo's strategy away from printing towards computer services. Ten years ago the company drew two-thirds of its sales from printing; after the EADS deal, its computer division will account for 80 per cent of group turnover.

EADS, which has been operated as an integral part of Datapoint in Europe, made an operating profit of £2.76m last year on sales of £23.3m. Kalamazoo reassured the

5-75

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market yesterday with a positive trading statement after experiencing difficulties with its security printing husiness The company said Its print division had ended the year

strongly and estimated pre-tax profits for the year to March 1996 would be not less than £5.88m (£6.82m).

Sbareholders will he offered 22 new ordinary shares at 103p for every 100 held.

Abacus shares fall on warning

By Christopher Price

A strong set of results from Ahacus Pular, the newlymerged electronics cnmponents distributor, were marred yesterday by a warning that sales and profits for the sec-ond half would he adversely affected by falling product

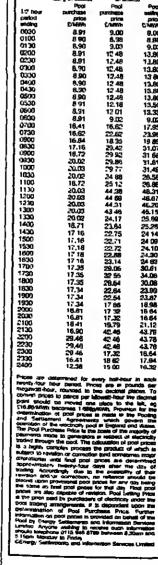
The warning, which sent the shares down 19p to 220p, came as the group reported a 45 per cent rise in pre-tax profits to £4.5m (\$6.84m) for the six mooths to March 31.

The group, which was formed from the takeover of Polar hy rival Abacus at the end nf last year, saw turnover rise 48 per cent to £46.6m. Polar alsn contributed 2600,000 to pre-tax profits. Mr Brian Mnrdoch, chief

executive, said the steep fall in semiconductor prices had only bad a slight impact on the results as the component did not form an integral part of the group's supply lines.
The UK market which

accounts for three-quarters of revenues, saw "reasonably strong" trading in the balf. However, prices bad begun to weakeo in some composeot areas, particularly those closely related to the semiconductor market.

Trading in Sweden bad proved tougher, with the Promax sobsidiary encountering falling product prices.



Cariton Communications Pic Exchangeable Capital Securities and Bearer Securities

Exchangeable Capital Securities and Dearer Securities
Cation Communications Pic ("Cartion") published to results for the six months ended 31st
Cartion's Exchangeable Capital Securities ("Ex-Capital Securities of Exchangeable Capital Securities ("Ex-Capital Securities of Exchangeable Capital Securities ("Ex-Capital Securities of Exchangeable of the six posterior of the Securities of Exchangeable of the Securities of Exchangeable of the six posterior of Exchangeable of the six posterior of Exchangeable of the Securities of the Exchangeable of the Securities of the Exchangeable of t

Cashmere prices hit Dawson

By Jenny Luesby

Steep price rises in the luxury cashmere market triggered a 39 per cent fall in underlying profits last year for Dawson International, the Scottish textile group best known for lts Pringle brand.

Trading conditions were "as bad as anyone can ever rememher," said Mr Derek Finlay, chairman.

In the UK, warm weather exacerbated the problems of weak consumer demand. In the US, cash-strapped retailers ran down stocks.

The group was also forced to pusb through price rises. It suspended purchasing of Chi-nese cashmere, hut a 35 per cent increase in casbmere prices in 1994 added £50 to the retail price of each garment. The prices for wool, cotton and

acrylic also rose.

Prices bad now stabilised, said Mr Finlay, offering relief to the fibres and yarns business where operating profits fell by a third to £10.9m, and to fahrics, where profits fell two-

thirds to £2.5m. For clothing, the underlying loss in the UK doubled to £6.9m, while profits in the US fell hy nearly 30 per cent to

However, orders had surged in the past six weeks, helped hy a fashion-driven redesign. Pre-tax profits of £3.9m, after exceptional charges of £5.5m for disposals, compared with £1.7m previously, depressed by restructuring charges of

Total sales fell 24 per cent to £313.1m while overheads were cut hy £9m.

Gearing remained stable at 27 per cent. Earnings amounted to 1.3p. compared with 1.5p losses last time. A final dividend of 1.5p holds the total at 3p.

Profits are forecast to rise to £15m this year, and £25m next

The shares closed unchanged



Derek Finlay: conditions 'as bad as anyone can remember

RESULTS											T. A.
							*************		- Dividends -		
	Тапара	च (धित)		o-(m)x R (2)m)	EP:	(p)	Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total lest year
Abacus Polar 6 mths to Mar 31	46.6	(31.4)	4.49	(3.09)	7.3†	(5.9)	1.8	July 2S	16		48
Anglian Water Yr to Mar 31	775.7	(720.1)	238.6	(216.14)	78.1‡	(66.4)	21.1	Oct 1	18	30	26
Setterware S3 wks to Mar 2	61.4	(58.3)	9.29♥	(1.01)	5.9	(1,2L)	4.35₹	July 22	1.75	S.2	26
Borthwicks Yr to Mar 30	33.1	(29.1)	1.6	(0.84)	1.8	(1)	0.8	Aug 2	0.8	1.3	1,3
Bristol Evening Post Yr to Mar 31	61.2	(6D)	6.63	(7.58♥)	16.91	(19.65)	9	July 24	8.25	14	12.75
Carlisle Yr to Dec 31	4 87	(5,07')	4,06L.▲	(1.25♥)	2.6L	(1.2)	nit	•	0.25	•	0.5
Sartion Comms 6 mths to Mar 31	847.8	(800.6)	143.3	(120,14)	15.3	(12.7)	4.37	Aug 23	3.72-		9,44
Pawson Inti Y1 to Mar 30	313.1	(414.2)	3.94	(1.7♠)	1.3	(1.51.)	1.5	Aug 13	1.5	3	3
lawitin 6 mths to Mar 31	25.6	(17.1)	3	(1.65)	1.82	(1.53)	0.5	Oct 3	0.4		1.4
Act and Russel 6 mits to Mar 31	55.3	(54.9)	3.72	(2.854)	4.75	(3,7)	2.85	July 26	2.75		6.4
Couthern Electric Yr to Mar 31	1,598	(1.680)	625.1♥	(202.14)	196.3	(57,1)	27	Oct 2	20.2	38.3	28,5
amaris Yr to War 31	9.51	(4.85)	1.11♥	(0,322♥)	0.23†	(0.12)	0,0518	Aug 14	الم	0.0729	nı
Tandem Yr to Jen 28	18.1	(9.96)	2.19L♠	(0.917)	4.15L†	(1.91)	nil		0.5	nii	0.5
investment Trusts	WAY	f (p)		outable gs (Em)	_	(b)	Current payusent (u)	Date of payment	Corresponding dotdend	Total for	Total last year

Kleinwort Euro Priv 6 mths to Mar 31 * 107.9 (88.3) 3.73 (4.18) Carmings shown backs. Dividends shown not. Figures to brackets are for corresponding period. *After exceptional charge. **After exceptional credit. **Ton increased capital. **Don reduced capital. **Equivalent after allowing for scrip issue. **Yinchides special of 2.5p. **Comparatives restated.

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Cash or shares for Dairy Crest owners

The 28,000 dairy farmers who indirectly own Dairy Crest, the former processing arm of the Milk Marketing Board, will be offered shares in up to 75 per cent of the company before it floats this summer, or a casb

alternative. The halance of the shares will he placed with institu-

Dairy Crest also unveiled a 69 per cent rise in pre-tax profits to £37.4m (\$56.8m) in the year to March 31.

Sir Derek Andrews, chairman of the residuary milk marketing hoard, which owns Dairy Crest on behalf of producers, said the company envisaged operating an inter-nal market in the shares for a sbort period just before flotation. This would enable farmers to huy and sell their allocation of shares among themselves to establish a core

of producer-owners. Sir Derek declined to put a value on Dairy Crest, saying this would be contained in the prospectus to be published in the next few weeks. However, the next few weeks. However, analysts estimate its value at food services 26 per cent.

between £200m and £250m. There will be no public offer

It dismissed concerns that the BSE crisis made it a bad time to float. It said that an increase in the number of cows the government planned to slaughter, currently 80,000. would have a "minimal" impact on profitability.

Mr John Houliston, chief executive, said: "If there were to be a sbortage of milk, the key products that drive profitability would receive the necessary milk.

The slightly larger than expected rise in pre-tax profits was belped by a sharp, one off increase in EU hutter and skimmed milk prices, cost-cutting on doorstep deliveries, and stroog demand for brands such as Cathedral City cheddar and Clover spread. Operating profits rose 19 per

cent to £33.6m, on sales from continuing operations down 6 per cent to £703.9m. The fall largely reflected the November 1994 closure of the Whitland creamery in west Wales. Consumer foods operatiog

Waterford Foods reviews options

enter a partnership with fellow Irisb dairy groups as competition increases through the industry, its shareholders were told yesterday, writes Martin

Mr Matt Walsh, managing director, told the annual meeting be was reviewing options that included "merger, partnerships or other form of strategic alliance" to cope with an "era of tremeodous change". This included the impact of Gatt and increased competition stemming from liheralisation of world trade and enlarge-

ment of the EU.

He said the group had in April cut by 3p a gallon the price it paid farmers for milk, and "it is likely that further adjustments would take place to bring milk prices into line with market returns". His move follows a series of

Waterford Foods may merge or tion of the industry is necessary as they face falling prices. while farmers resist cuts in the price of their milk. This dilemma is particularly

difficult for co-operatives like

Kerry Group and Dairygold. Waterford had tried to merge with Avonmore, its oortbern neigbbour, but talks broke down in 1991. Dairy group shares in Duhlin responded positively to the news. Waterford Foods rose 2p to 78p, Golden Vale rose 2p to

63p, Avonmore was unchanged

at 148p and Kerry Group rose

5p to 640p. Mr Joe Gill, food analyst at ABN Amro Riada in Dublin. said 1994 had been a buoyant year for dairy produce, hut the industry had been hit by an increase in supplies from New Zealand and a drop in demand from eastern Europe and the veal industry, which used to consume calf milk replacer but comments from Irlsh dairy groops suggesting a consolidation bad been hit by BSE.

FINANCIAL TIMES THURSDAY MAY 30 1996

COMMODITIES AND AGRICULTURE

Chicago bulls run for cover as sun comes out

By Laurie Morse in Chicago

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Sunshine on LaSalle Street helped push Chicago maize and wheat futures prices down the daily allowable limit yesterday as traders realised that the few clear days forecast for this week and next would be enough to allow farmers to reenter their rain soaked fields and finish planting their spring

About 20 per cent of the US maize crop remained to be planted as of Sunday, according to a survey conducted by the US Department of Agriculture and released on Monday. Traders yesterday said farmers in crucial states like Indiana and Ohio could easily complete their sowings by the end of next week, and the surplus moisture received through the

grain belt over the weekend could only speed germination of new-crop maize. Weekend rains also broke an

8-month drought in parts of the Southwest plains, where winter wheat harvesting has just begun. Analysts said the mois-ture was too late to boost wheat yields, but it would encourage farmers to plow up failed wheat stands and plant milo, a feed grain that can be used in place of maize. "It now looks like we could get another million acres [of milo]," said Mr Jerry Gidel, grains analysts for Dean Witter in Chicago.

The market has just begun to factor that in." The rains also revived pastures in Texas and Oklahoma. where cattle growers have been pinched for feed, and

slaughter. The US Department of Agriculture is also expected to release some 42m bushels of emergency food reserve maize

to aid cattle ranchers.

The improved planting prospects, lagging maize export numbers and government aid to cattle ranchers bave all taken the pressure off maize prices, analysts said, allowing futures for new-crop delivery to slip close to \$4 a bushel. At last night's close the prompt July position was at \$4.661 a bushel while September delivery was quoted at \$4.001/2, both down 12 ceots.

two-phase project that would involve 200,000 tonnes of Wheat prices are also expected to staiblise at lower annual capacity being built for production to begin between levels now that it appears spring wheat seedings are pro-2000 and 2002. A second 200,000-tonnes-a-year tranche could be ceeding ahead of last year's pace across much of the Northadded a year or so later, depending on market condi-

man, yesterday.

Mining Correspondent

The scheme would need the aluminium smelter there by participation of the Icelandic 62,000 tonnes to 162,000 tonnes

Interest in Icelandic aluminium plan revives government, which would have to expand the country's state-owned hydro-electric power

A plan to build a US\$1bn capacity, aluminium smelter in Iceland Mr Born said after a presen to take advantage of that countation to investors and anatry's cheap bydro-electric power - which was shelved in lysts in London that it was not just the low-cost power that the early 1990s when alumin-ium prices dived to bistoric made the project potentially sttractive to his company. It lows - is now being reconsidwould also provide aluminium production within the Euro-

The three partners in the pean free trade area. venture, Alumax of the US, At present aluminium imports to European Union Granges of Sweden and Hoo-govens of the Netherlands, countries attract a 6 per cent would make a decisinn by the tariff. Although Alumax curfirst quarter of 1997, said Mr rently avoided this tariff by Allen Born, Alumax's chairswapping metal with European companies needing aluminium supplies in North America Under consideration was a there was a limlt to how much

> group's European business The possibility of a new smelter for Iceland comes only seven months after Alusuisse-Lonza, the Swiss group.

of this could be done as the US

Mr Born made it clear, how-ever, that the Icelandic smelter was just one of a number of options Alumax was consider-

The group might instead double the capacity of its 215,000 tonnes a year Lauralco smelter, a wbolly-owned facility in Quebec, Canada. Quebec Hydro, which supplied the power, still had excess capacity because the expected expansion of the Alouette aluminium smelter had been shelved last vear. Hoogovens was one of the five partners in the Alouette consortium and this had made it keen on the

Alumax had also received approaches from promoters of aluminium smelter projects -still to be announced - in the Middle East and Latin America who wanted the US group's operational skills. These would also be considered but it was

currency risks were higher in

Vietnam's mining law disappoints investors

lceland scheme, said Mr

America. Mr Born said that, if the Icelandic project went ahead, Alumax would have 40 per cent and be operator, Hoogovens and Granges would each have 30 per cent. The technology would probably be that used at Alumax's Mt Holy smelter in the US where a mixture of Alcoa and Alumax expertise

was employed.

Alumax is the world's fifth largest producer of primary aluminium and expects this year that its output will be close to total annual capacity of 671,400 tonoes. Mr Born said that the group preferred to be "long" of the metal, with 60 to 70 per cent of its output being used by its own plants and the rest sold to ontside custom-

With aluminium demand growing by at least 2 per cent annually, the industry required a new smelter of average size every year, he pointed out, Global demand obvious that the political and

and supply were likely to be in

those areas than in North balance this year but demand would outpace the available metal in 1997 and 1998, he

> • One area of rapid growth was the use of aluminium hy the car industry. Giving an example of this, Mr George Stoe, executive vice president revealed Alumax was competing against Reynolds Metals, a rival US aluminium group, for a contract to supply 260m lb of aluminium extrusions and 60m lb of sheet over a ten-year period to General Motors, the world's blggest automotive company. GM had decided to switch some components on its Chevrolet CK pick-up truck from steel to aluminium to

> save weight. Some 363,000 of these pick-ups were produced last year. Alumax had cut the amount of production It bedged via options, said Mr Lawrence Frost, senior vice president, because the cost of options was too high. Only 2 per cent of the group's planned 1997 output had been bedged.

have been sending animals to **Batteries boost cobalt demand**

By Kenneth Gooding

Rechargeable batteries used for electronic equipment such as portable telephones and laptop

computers are jolting new life into the cobalt market. Demand for cohalt could rise by more than 25 per cent by the year 2000, from 23,500 tonnes last year to 29,630 tonnes, according to Mr Bryce Clark, general manager of the Cobait Development Institute. More than half of the extra demand, 3,300 tonnes ont of the increase of 6,130 tonnes, would

be provided by makers of high density batteries. All three types of these bat-teries - nickel/cadmium; nickel/metal hydride; and lithium/ ion - use substantial quantities of cobalt in various forms.

Mr Larry Dominey of OMG inc told the Cobalt Conference organised by the institute, that growth in high density battery sales "is dominated by the three "c" end uses; computers, camcorders and communications". He said analysts expected demand for these batteries to more than double COMMODITIES PRICES

The Cobalt Market				
Segment	1995	2000	Future	
Superafloys	25%	23.5%	steady	
Hardfacing and other alloys	7%	6.1%	Stoady	
Magnets - all types	10%	8.8%	Steady	
Hard materials	15%	13%	Steady	
Catalysts	10.2%	9.5%	growing	
Colours	12%	10.5%	Steady	
Feedstuff, anodising				
Cu extraction, recording	6.5%	5.2%	steady	
Ratteries	344	12 444	-	

Total (tonnes) Source: The Coball Development Institute

to nearly 2.5bn in 2003, In his market analysis, Mr Bryce suggested that only one other sector would show strongly increasing demand for cobalt: catalysts for the oil and chemical industries. "There are reasons to suppose that further expansion is possible [in this sector] as olls need more cleaning and uses of Terylene expand," he said. Nevertheless, the biggest use

of cobalt would continue to be in superalloys and 80 per cent of these were employed in the

The Cobalt Market					
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Hard materials	15%	13%	Steady		
Catalysts	10.2%	9.5%	growing		
Colours Feedstuff, anodising	12%	10,5%	steady		
Cu extraction, recording	6.5%	5.2%	steady		
Batteries	3%	13,4%	growing		
Adhesives and driers	10.3%	10%	Steady		

23,500 29,630

and this should help reduce

cobalt price volatility.

from about 1bn units last year manufacture of turbines.

Mr Bryce said there was little doubt that the industry could supply 30,000 tonnes of cobalt in 2000. Mr Thomas Leyseo, general manager of Union Miniere, pointed out that, not only would several thousand tonnes of cobalt become available as a by-product of new nickel production, but there were also "stand alone" cobalt projects. In future these would be "swing" producers, reducing output when prices were low,

nam are used to waiting months for government decisions, but the five years Hanoi has taken to produce a mineral law has tested the patience of mining companies almost to breaking point. Now that it has emerged, many may be wondering if it was worth

hanging on at all. The document, passed in March by the legislative National Assembly, establishes the ground rules for foreigners interested in developing the country's mineral reserves, which are thought to be substantial, Geologists say the best prospects appear to be in the mountainous north, where

But lawyers and industry experts warn that despite having gone through 14 drafts, the law still fails to deal squarely with the main question:

■ COCOA LCE (£/tonne)

there is gold, copper, lead and

oreign investors in Viet- whether foreigners have the years, extendable for another right to mine what they find. About 20 foreign companies, mostly Australian, have been looking at minerals in Vietnam for the past three years. Companies include CRA, North Star, Arcourt Resources, New-

crest Mining, Normandy Poseidon and Canexco of Canada. Most have only scratched the surface, however, wbile waiting for the mining law to clarify the position on mineral ownership and other issues. Vietnam had signalled in the months preceding the law's

passage that it would address

these concerns.
As it is, The law says that foreign companies that already have an exploration permit, which some already possess, merely have the "special right" to apply for a mining permit. This allows the investor to mine, process and explore an area, and is valid for up to 30

Explorers still do not know if they have the right to mine what they find, writes Jeremy Grant

20 years. "This 'first right of refusal' may have disappointed some mining companies, which bad boped for an entrenched, exclusive right to mine," says Mr Nigel Russell, senior associate with Australian lawyers Phil-

ips Fox in Hanoi, There are other reasons to grumble, mining company officials say. One further cause for complaint is the giving of dis-cretionary powers to the government to ban the export of

certain minerals on a list to be issued "from time to time". Although this appears to be aimed at encouraging the development of a domestic processing industry, it effectively means that no mining company can be sure that what it mines will not suddenly be subject to an export ban, "Min-

ers will not want to see the

government issuing a list

60,825 +0,250 60,900 59,800 6,816 26,114 63,925 +0,750 63,975 62,850 5,146 30,236

MEAT AND LIVESTOCK

III LIVE CATTLE CME (40,000fbs: cents/lbs)

every six months," says one

Hanoi-based lawyer. Other issues crucial to financing, such as tax and royalty levels, have been omitted after having been included in earlier drafts. The same goes for the maximum size of site Hanoi

will allow a foreign mining company to exploit. Yet some mining companies are not discouraged, particularly those that have already staked out areas they believe contain commercially viable deposits. One such is Golden Tiger Resources, a Canadian-Australian concern that

includes a gold mine in That

Nguyen province, north of Hanoi, in its portfolio. "The main concern was that if you found something, it would be put up for auction. But it's very clear in my mind that this is not the intention." says Mr Rupert Crowe, manag-

Some mining companies feel that the law is deliberately vague and hope that implementing rules - which normally follow any piece of legis-

lation in Vietnam - will clarify matters. In their view, the authorities were reluctant to enshrine too many foreign rights in the law just months before a politically-sensitive communist party congress, scheduled for June.

where foreign investment will itself come under scrutiny. This would account for emphasis in the law of the "leading role" of Vietnamese state-owned companies in the sector, although it is not clear whether this means foreign

joint ventures with them. "As so often, it's a question of national sovereignty and self-sufficiency in natural resources," says the foreign

companies must enter into

BASE METALS

LONDON METAL EXCHANGE (Prices from Amalgarnated Metal Trading) M ALUMINIUM, 99.7 PURITY (\$ per tonne) 3 miles Cash

1556.5-57.5

Prévious	1552-53	1584-84.5
High/low	1548 1548-49	1599/1580 1580-80.S
AM Official kerb close	1346-49	1596.5-7.5
Open Int.	225,723	1020.0 7.0
Total daily turnover	34,271	
ALUMINIUM ALL	OY is per tonne	9
Close	1285-95	1325-30
Previous	1305-10	1343-44
High/low		1325/1323
AM Official	1280-85	1320-21 1320-30
Kerb close Open int.	4.787	1320-30
Total daily turnover	1,396	
■ LEAD (\$ per tonn	el	
Close	825.5-26.5	829-30
Previous	827-28	B30-31
High/low		835/824
AM Official	825-26	827.5-28.0
kerb close	35.833	833-35
Open int. Total daily turnover	6.243	
M NECKEL & per to		
	8025-35	8135-40
Close Previous	7865-75	7975-80
High/low	7935/7910	8155/7990
AM Official	7910-15	8010-15
Kerb close		8140/50
Open int.	43,373	
Total daily turnover	13,038	
TIN (\$ per tonne)		6255-60
Close	6215-25 6205-15	6250-60
*jevious High/low	6205	6300/6230
AM Official	6200-210	6245-50
Kerb close		6290-900
Open int.	16,831 7,022	
Total daily turnover		conel
ZINC, special hig		1042.5-43.0
Close	1015.5-15.5 1025-26	1042.5-43.0
Previous High/low	1079.5/1019	1049/1041
AM Official	1018-19.5	1045-46
Kerb close		1042-43
Open int.	71,239 23,901	
Total delly turnover		
COPPER, grade	2555-58	2445-46
Clase	2563-58	2437-38
Previous High/low	2546/2543	2445/2427
AM Official	2545-46	2437-38 2453-4
kerb close	177,898	2453-4
Open int.	1117,898 48,055	
Total daily turnover		4
LME AM Official LME Closing 5/\$	Lague M/W	
Spot: 1,5213 3 miles: 1.5		
■ HIGH GRADE CO		
Sett Day's price chang		Open Vot int

PRECIOUS METALS IN LONDON BULLION MARKET (Prices supplied by N M Rottschild)

Close
Opening
Iteming fix
Itemoon fit
Day's High
Day's Low Loco Ldn Mean Gold Lending Rates (Vs USS) 12 months US ats equiv. Silver Fix 536.75 543.05 549.35 562.80 353.95 358.60 363.20 372.85 1 year \$ price 392-395 401.90-404.45 92-95 £ equiv. 258-260 **Gold Coln**

61-63

Precious Metals continued ■ GOLD COMEX (100 Troy oz.; \$/troy oz.) -0.2 391.0 391.0 20 10 -0.4 392.4 391.0 23,794 39.903

Jul	3927	-D.4		-	_	-
Apg	394.4	-04	395.5	394.2	19,094	66,632
Oct	387.4	-03	398 4	397.3	313	5,947
Dec	400.3	-0.3	401.6	400.1	2,593	
Total						202,685
■ PLA	TINUM	NYMEY	(50 Tr	oy oz.	\$/troy e	IZ.)
Jet.	481.4	-0.9	404.0	401.1	2,624	20,390
Oct	404.7	-0.9	407 D	405.0	497	5,058
Jun	407.7	-0.9			187	1,025
Apr	410.7	-0.9	412.D	411 0	143	1,529
Total	LADUE	. Lbar	~ ~~	T	3,451	28,612
_	LADIUM					
Jun	132.00	+0.95	132.75	132.00	483	2,077
Sep Dec	132.75		133.60 133.50	132.75	651 65	6,066 840
Total	133.85	+1.50	133.50	132.73	1,299	9,083
	VER CON	AEY (5)	and Ter	w 07 · (
_						
May	531.1 531.1	-22 -25	534.0 530.0	530.0 530.0	50 1	31 3
=	533.5	-23	538.5	532.0	9,494	64.30B
Sop	538.9	-22	543.0	538.0	674	15,147
Dec	546.7	-22	551.5	545.D	198	9,967
Mar	554.6	-22	556 D	555.0	25	3,725
Total					10,842	108,598
1000						
ENE	RGY	NO.	v .1 00	. h	- 65	
ENE	RGY	NYME	K (1,00)) barrel	s. \$/be/	
ENE	JDE OIL	Day's				Open
ENE ■ cad	JDE OIL Latest price	Day's change	High	Low	Yel	Open int
ENE ■ cad	JOE OIL Latest price 20.77	Day's change -0.34	High 21.14	Low 20.65	Yel 29,141	Open int 91,269
ENE E CAR	Latest price 20.77 19.90	Day's change -0.34 -0.25	High 21.14 20.24	Low 20.85 19.82	Yel 29,141 10,266	Open int 91,269 48,212
ENE ■ cad	JOE OIL Latest price 20.77	Day's change -0.34	High 21.14	Low 20.65	Yel 29,141	Open int 91,269
ENE GRE Jul Ang Sep	JDE OIL Latest price 20.77 19.90 19.24	Day's change -0.34 -0.25 -0.22	High 21.14 20.24 19.47	20.65 19.82 19.20	Vel 29,141 10,266 4,320	Open int 91,269 48,212 38,055
ENE M CRt Jul Ang Sep Oot Hov Dec	Latest price 20.77 19.90 19.24 18.80	Day's change -0.34 -0.25 -0.22 -0.18	High 21.14 20.24 19.47 18.92	20.85 19.82 19.20 18.80	Yel 29,141 10,266 4,320 3,220 1,788 752	Open int 81,269 48,212 38,055 23,560 19,240 33,357
ENE GRE Jul Ang Sap Out Blow	Latest price 20.77 19.90 19.24 18.80 18.51	Day's change -0.34 -0.25 -0.22 -0.19 -0.20	High 21.14 20.24 19.47 18.92 18.65	20.85 19.82 19.20 18.80 18.50	Yel 29,141 10,266 4,320 3,220 1,788	Open int 81,269 48,212 38,055 23,560 19,240 33,357
ENE M CRU Jul Ang Sep Oot Hov Dec Tetal	Latest price 20.77 19.90 19.24 18.80 18.51	Day's change -0.34 -0.25 -0.22 -0.18 -0.20 -0.17	High 21.14 20.24 19.47 18.92 18.65 18.47	20.85 19.82 19.20 18.80 18.50	Yel 29,141 10,266 4,320 3,220 1,788 752	Open int 81,269 48,212 38,055 23,560 19,240 33,357
ENE M CRU Jul Ang Sep Oot Hov Dec Tetal	Jatest price 20.77 19.90 19.24 18.80 18.51 19.32	Day's change -0.34 -0.25 -0.22 -0.18 -0.20 -0.17	High 21.14 20.24 19.47 18.92 18.65 18.47	20.85 19.82 19.20 18.80 18.50	Yel 29,141 10,266 4,320 3,220 1,788 752	Open int. 81,269 48,212 38,055 23,560 19,240 33,357 385,101
ENE M CRU Jul Ang Sep Oot Hov Dec Tetal	JOE OIL Latest price 20.77 19.90 19.24 18.80 18.51 19.32 JOE OIL Latest	Day's change -0.34 -0.25 -0.22 -0.19 -0.20 -0.17	High 21.14 20.24 19.47 18.92 18.65 18.47	20.85 19.82 19.20 18.80 18.50 18.30	Val 29,141 10,266 4,320 3,220 1,788 752 51,792	Open int 91,269 48,212 38,055 22,560 19,240 33,357 tes,101
ENE GRE Jul Ang Sop Out How Dec Tetal ECRL	JDE OIL Latest price 20.77 19.90 19.24 18.80 18.51 19.32 JDE OIL Latest price 18.67	Day's change -0.34 -0.25 -0.19 -0.20 -0.17 IPE 65/ Day's change -0.27	High 21.14 20.24 19.47 18.65 18.47 barrel)	Low 20.85 19.82 19.20 18.50 18.50 18.30	Vol. 29,141 10,266 4,320 3,229 752 51,788 752 51,79	Open int 91,269 48,215 38,055 22,560 19,240 33,357 tes,101 Open int 76,012
ENE GRI Jul Ang Sep Out Textul ECRL Jul Ang Ang Ang Ang Ang Ang Ang Ang Ang An	JDE OH. Latest price 20.77 19.90 19.24 18.87 18.51 19.32 JDE OU. Latest price 18.67 18.14	Day's change -0.34 -0.25 -0.22 -0.19 -0.20 -0.17 IPE 65/ Day's change -0.27 -0.19	High 21.14 20.24 19.47 18.65 18.47 bearen 18.90 18.91	Low 20.85 19.82 19.82 18.80 18.50 18.30	Vel 29,141 10,266 4,320 3,220 1,788 752 51,792 51,792 Vel 20,148 9,662	Open int 81,269 48,212 38,055 22,560 19,240 33,357 tes,101 Open int 76,012 35,556
ENE BE CARE Jul Amy Sop Oot Nov Dec Textul BE CRE Jul Amy Sop	JDE ONL Latrest price 20.77 19.90 19.24 18.85 19.32 JDE OUL Latrest price 18.14 17.75	Day's change -0.34 -0.25 -0.19 -0.20 -0.17 IPE 65/ Day's change -0.27 -0.19 -0.17	High 21.14 20.24 18.47 18.65 18.47 barrel) 18.90 18.91 17.90	20.85 19.82 19.20 28.80 18.50 18.30 Low 12.60 19.10 17.75	Yel 29,141 10,266 4,320 3,220 1,788 752 51,792 5 Yel 20,148 9,662 9,151	Open int 91,269 48,212 38,055 23,560 19,240 33,357 265,101 Open int 76,012 35,556 13,141
ENE III CPRI Jul Ang Sop Oot Blow Dec Tetal III CPRI Jul Ang Sop Oot	JDE OHL Latost price 20.77 19.90 19.24 18.85 19.32 JDE OHL Latost price 18.67 18.14 17.75 17.49	Day's change -0.34 -0.25 -0.22 -0.19 -0.20 -0.17 IPE 65/ Day's change -0.27 -0.19	High 21.14 20.24 19.47 18.65 18.47 bearen 18.90 18.91	Low 20.85 19.82 19.82 18.80 18.50 18.30	Vel 29,141 10,266 4,320 3,220 1,788 752 51,792 51,792 Vel 20,148 9,662	Open int 81,269 48,212 38,055 22,560 19,240 33,357 tes,101 Open int 76,012 35,556
ENE BE CARE Jul Amy Sop Oot Nov Dec Textul BE CRE Jul Amy Sop	JDE ONL Latrest price 20.77 19.90 19.24 18.85 19.32 JDE OUL Latrest price 18.14 17.75	Day's change -0.34 -0.25 -0.19 -0.20 -0.17 Day's change -0.27 -0.19 -0.15	High 21.14 20.24 19.47 28.92 18.65 18.47 bearel) 18.90 18.90 17.90 17.60	Low 20.85 19.82 19.20 28.80 18.50 18.30 Low 18.60 19.10 17.75 17.46	Yel 29,141 10,268 4,320 3,220 1,782 51,792 51,792 9,562 9,151 4,806 653 1,321	Open int 81,269 48,212 38,055 23,560 19,240 33,357 865,101 Open int 76,012 35,556 13,141 9,878 5,335 11,785
ENE Jul Ang Sep Out Horr Testal III CRL Jul Ang Sep Out Reserved Ang Sep Out Reserved Ang Sep	JOE ONL Latest price 20.77 19.90 19.24 18.80 18.51 19.32 JOE OIL Latest price 18.67 18.14 17.75 17.35	Day's change -0.34 -0.25 -0.22 -0.17 IPE 65/ Day's change -0.27 -0.15 -0.07	High 21.14 20.24 19.47 78.92 18.65 18.47 bearel) 18.90 19.91 17.90 17.60 17.37	20.85 19.82 19.20 18.80 18.50 18.30 Law 12.60 19.10 17.75 17.46 17.33	Yel 29,141 10,266 4,320 3,220 1,788 752 51,792 9,151 4,806 653	Open int 81,269 48,212 38,055 23,560 19,240 33,357 865,101 Open int 76,012 35,556 13,141 9,878 5,335 11,785
ENE III CPRI Jul Ang Sop Oot Blow Dec Textul III CPRI Jul Ang Sop Oot Blow Total	JOE ONL Latest price 20.77 19.90 19.24 18.80 18.51 19.32 JOE OIL Latest price 18.67 18.14 17.75 17.35	Day's change -0.34 -0.25 -0.22 -0.19 -0.17 IPE 65/ Day's change -0.27 -0.19 -0.17 -0.15 -0.07 -0.14	High 21.14 20.24 19.47 18.65 18.47 High 18.90 19.31 17.90 17.37 17.20	Low 20.85 19.82 19.20 28.80 18.30 18.30 Low 12.60 19.10 17.75 17.43 17.10	Yel 29,141 10,266 4,320 3,220 1,782 51,792 51,792 51,792 9,151 4,806 653 1,321 44,520	Open int 81,269 48,212 38,055 219,260 33,357 865,101 Open int 76,012 35,556 13,141 9,875 11,785 178,760
ENE III CPRI Jul Ang Sop Oot Blow Dec Textul III CPRI Jul Ang Sop Oot Blow Total	JOE ONL Latest price 20.77 19.90 18.51 19.32 JOE OU. Latest price 18.67 18.17 17.75 17.49 17.35 17.10	Day's change -0.34 -0.25 -0.22 -0.19 -0.17 IPE 65/ Day's change -0.27 -0.19 -0.17 -0.15 -0.07 -0.14	High 21.14 20.24 19.47 18.65 18.47 High 18.90 19.31 17.90 17.37 17.20	Low 20.85 19.82 19.20 28.80 18.30 18.30 Low 12.60 19.10 17.75 17.43 17.10	Yel 29,141 10,266 4,320 3,220 1,782 51,792 51,792 51,792 9,151 4,806 653 1,321 44,520	Open int 81,269 48,212 38,055 219,260 33,357 865,101 Open int 76,012 35,556 13,141 9,875 11,785 178,760
ENE III CPRI Jul Ang Sop Oot Blow Dec Textul III CPRI Jul Ang Sop Oot Blow Total	JOE OIL Latest price 20.77 19.90 19.24 18.80 19.32 JOE OIL Latest 17.15 19.32 JOE OIL Latest 17.75 19.35 17.10 Latest Lat	Day's change -0.34 -0.25 -0.29 -0.17 IPE 65/2 Change -0.27 -0.15 -0.17 -0.15 -0.14 L NYME	High 21.14 20.24 19.47 18.65 18.47 High 18.90 19.31 17.90 17.37 17.20	Low 20.85 19.82 19.20 28.80 18.30 18.30 Low 12.60 19.10 17.75 17.43 17.10	Yel 29,141 10,266 4,320 3,220 1,782 51,792 51,792 51,792 9,151 4,806 653 1,321 44,520	Open int 91,269 48,212 38,055 22,560 19,240 33,357 185,101 Open int 76,012 35,556 13,141 9,535 11,785 178,769 galls.)

	Latest	Day's				Open
	price	change	Eligh	Low	Vol	int
Jan	54 05	-0.13	54 60	53.60	9.130	9.099
.hd	53.05	-0.22	53.78	52.00	5,625	20,597
Aug	52.85	-0.22	53.35	52.80	2,045	14,417
Sep	53.40	+0.13	53 50	53.30	688	9,339
Det	53.55	-017	53 85	53.55	503	4,854
Mov	54 00	-0.17	54.20	54.00	537	5,936
Total					19,636	96,510
■ GAS	OIL IPE	(\$/tonne	+			
	Sett	Day's				Open
	price	change	High	Low	Vol	let
Jan	166.00	-0.25	166.50	164,75	4,578	14,147
.hu	163.00	-1.00	163.50	182.00	2,770	11,048
Aug	162.50	-075	182.75	161.75	861	7,256
Seo	163.00	-0.25	163.25	162.00	206	4.863
Oct	163.00	-	164.00	162.75	269	1,900
Nev	163 00	-	163 00	183.00	. 54	1,457
Total					9,067	52,260
■ NAT	URAL G	AS NYN	£EX 10 <u>.</u> 0	200 mmel	3tu.; S/m	m8111
	Latest	Day's				Open
	price	change	High	Lete	Vol	int
.bal.	•	+0.012	2435	2.395	9.145	34.415
Aug		+0.019	2.460	2,405	3,783	20,019
Sep		+0 01B	2.41B	2,370	543	10,765
Det	2.370	+D B15	2.380	2.345	1,158	13,107
How		+0.036	2.395	2.375	556	9,284
Dec	2.465	+0.041	2479	2.440	919	
Total					19,945	43,222
■ UNL	EADED	GASOI	LINE			
NYME	D. (42,000	US gallo	:: c/US g			
	Lefest	Day's				Open
	price	clauge	High	Low	Vol	ini
.hea	62.25	-0.90	63.78	62.00	16,388	12,069
الكالي	02.23				11.500	

61.85 -0.73 63.00 61.65 11.599 22,997 61.85 -0.73 63.00 61.85 71.988 22.997 6035 -0.63 67.00 6015 3.567 14.104 50.80 -0.22 5640 56.25 452 1.702 54.15 -0.03 54.15 54.15 123 1.117

130.25 -1.00 131.00 130.50 26 1,561 113.00 -0.50 113.50 113.00 30 367 114.75 -0.60 115.25 114.75 202 3,062 116.75 -0.50 117.05 116.75 - 994 119.00 -0.20 119.00 116.90 10 199 121.00 -0.20 121.00 121.00 - 83 279 6,282 M WHEAT CBY (5,000bu min; cents/60to bushet) 526.00 -20.00 547.00 526.00 21,910 51,290 526,75 - 20,00 546,50 526,75 4,150 17,47 532,75 - 20,00 552,75 532,75 5,354 19,569 529,00 - 20,00 546,00 529,00 302 2,108 476,00 - 20,00 49,00 476,00 43 119 426,75 - 13,25 440,00 425,00 124 1,559 MAIZE CBT (5.000 bu mm; cants/56th bushet) 488.50 -12.00 478.59 468.50 32.349 141,203 400.50 -12.00 493.00 400.50 17,535 70,226 351.50 -12.00 361.25 351.60 59,491 159,748 357.25 -12.00 366.00 357.25 3,368 18,710 358.25 -12.00 366.00 358.25 574 3,297 358.78 -12.00 385.50 358.75 413 4,083 SOYABEANS CET (5,000be min; cents/60b buchel) 775.00 -26.50 802.50 771.00 33,264 71,362 774,00 -27.50 798.25 771.50 2,682 14,384 758.50 -28.00 781.00 757.00 755 0,798 752.00 -25.25 776.00 749.00 19,155 83,471 750.25 -25.75 780.00 756.00 371 7,397 763.50 -26.50 785.50 762.50 78 3,009 56,462 194,585 SOYABEAN OIL CET (60,000lbs: cents/lb)
 26.64
 -0.54
 27.10
 28.46
 8.536
 45,193

 26.83
 -0.52
 27.23
 26.65
 889
 12,121

 27.00
 -0.65
 27.38
 26.85
 462
 6.065

 27.15
 -0.55
 27.30
 28.95
 135
 4.662
 27 39 -0.55 27.50 27.23 2,532 20,645 27.45 -0.55 27.00 27.48 90 1,664 SOYABEAN MEAL CBT (100 tons, \$/ton) ■ POTATOES LCE (E/tonne) 73 1,114 - 1 73 1,115 - - 588 1250 1 573

GRAINS AND OIL SEEDS

■ WHEAT LCE (€ per tonne)

PUTURES DATA All futures data supplied by CMS. Nuts and Seeds
Prices from Kervisio Group; US\$ a tonne, iranan pistachlos 28/30 raw (in shell) naturally opened iround); 1995 crop 3,300 CFR/FOT MEP, steady, US almonds (shelfed), tight availability for 1995 crop; New crop 27/30 slanderd at 5,500 FAS California, September/Octobershament, US walnuts LHP 20% – no new crop prices yet; prompt 6,100 FAS California, easy, Indian cashews raw: 1995 crop, W-320, 6,200 spot Europe – up slightly: 1996 crop homogen at 5,900 CFR india for second half of 1996, Turkish hezakrut kernele, 13/15 standard 1s, 1995 crop, 3,100 FO8 MEP; new crop at 3,050 FO8 MEP – up after heavy ran. Turkish apricots No. 4, 1995 crop at 2,550 FO8 MEP, imming, Chinase pine nut kernels; Chinase defaulting on contracts as price rises another 1,000 to 8,000. Ersell sunificator seed – new crop 8mm+ estimate at 1,900 CFR, steady.

1075 -6 1090 1080 12 31 1101 -7 1103 1093 967 20,551 1121 -7 1123 1113 633 45,951 1061 -6 1054 1043 1,003 20,362 1040 -3 1041 1032 530 35,093 1049 -4 1051 1043 529 19,680 4,300 165,415 +8 1373 1355 3,365 25,533 +8 1399 1373 1,217 19,911 +8 1413 1398 333 17,853 +9 1427 1415 106 13,578 +10 1444 1338 1 9,066 +10 - - 5,630 1371 5,082 93,138 ■ COCOA (ICCO) (SDR's/tonne) COFFEE LCE (Stonne)
 1880
 +25
 1985
 1847
 74
 744

 1808
 -7
 1823
 1800
 2,091
 14,528

 1793
 +2
 1800
 1785
 526
 7,299

 1766
 +10
 1789
 1776
 254
 3,203

 1756
 +11
 1760
 1756
 44
 1,755

 1720
 +17
 1730
 1730
 125
 908

 2,983
 2,983
 2,983
 2,883
 2,883
 2,883
 COFFEE 'C' CSCE (37,500lbs; cents/lbs) 117.30 +0.45 119.10 116.50 3,708 14,783 116.50 +0.50 118.00 115.60 823 8,607 114.75 +0.76 115.75 114.25 234 3,237 113.45 +0.45 114.25 112.75 720 827 4,834 25,986 COFFEE (ICO) (US cents/pound) 111.17 373 9 -1.6 375.1 372.5 1.672 11,281 341.1 -2.4 343.5 340.9 139 5.802 330.1 -2.6 332.5 330.5 65 3,673 326.2 -3.9 329.0 326.4 222 3,520 325.2 -3.4 327.5 325.4 145 1,399 327.2 -0.4 327.5 327.5 307 556 2,234 28,760 SUGAR "11" CSCE (112,000(bs; cents/bs) 10.95 -0.06 11.06 10.90 14.388 60.116 10.57 -0.08 10.55 10.56 2,980 39.100 10.56 -0.09 10.86 10.55 1.334 29.590 10.52 -0.09 10.80 10.52 902 9,987 10.48 -0.07 10.53 10.49 437 7,274 10.43 -0.07 10.48 10.45 00 2.881 20,122 149,308 COTTON NYCE (50,000fbs; cents/fbs) 79.52 -1.60 81.40 79.50 3.874 23,840 79.55 -1.94 81.45 79.55 837 4,578 79.55 -1.80 81.15 79.55 5,531 28,861 90.60 -1.60 82.00 80.60 282 3,787 81.30 -1.50 82.50 82.50 22 3683 82.00 -1.05 82.50 82.00 25 683 10,779 65,840 ■ ORANGE JUICE NYCE (15,000lbs; cents/lbs) 119.70 -0.95 120.25 119.40 361 11.560 118.80 -1.20 119.50 118.75 222 4.788 117.10 -0.50 117.75 117.15 176 1.510 114.90 -0.45 115.25 114.75 82 3.832 118.10 +0.10 118.70 118.00 17 263 118.10 +0.10 - - 150

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CST, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months. INDICES REUTERS (Base: 18/9/31=100) M CRB Futures (Base: 1967=100) May 20 May 24 month age 255.63 257.00 E GSCI Spot (Base: 1970=100)

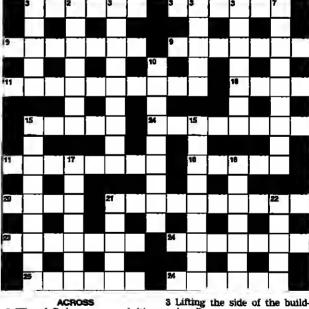
64.850 +0.225 64.900 64.400 1,892 21,351 62,625 +0.075 62,850 62,050 65,475 +0.075 65,675 65,350 450 2,456 5,028 18,406 61,475 -1,375 62,600 61,350 4,192 10,179 57,525 -1,100 58,600 57,125 3,545 8,737 53,400 -0,775 54,250 92,675 1,334 6,977 48,975 -0,750 48,025 48,250 698 5,753 51,600 -0,650 52,250 50,750 678 5,753 71,500 -0,500 72,100 70,800 158 1,166 PORK BELLIES CME (40,000fbs; cents/lbs) 88.725 -2 90.500 88.725 194 69 82.800 -2.000 83.850 82.800 1,595 6,117 80.375 -2.000 01.300 80.375 462 2,568 71.600 -1.525 73.600 71.225 40 548 72.700 -1.350 73.500 72.500 0 48 74.400 -1.350 73.750 73.750 11 54 LONDON TRADED OPTIONS Strike price \$ tonne ---- Cells ---COFFEE LCE Sep 222 257 294 127 186 208 975 900 925 LONDON SPOT MARKETS ■ CRUDE OfL FOB (per berrel) +OF-Brent Blend (dated) Brent Blend (July) W.T.L. -0.595 -0.415 \$20 72-0.735 ■ OIL PRODUCTS MWE prompt delivery CIF (torne) \$214-218 Gas Oil S172-1
Heavy Fuel Oil S96-5
Naphtha 8189-1
Jet fuel 8192Diesel S174-1
III NATURAL GAS (Pence/therm) Petroloum Argus. Tel. Landon (0171) 359 8792 OTHER Gold (per troy oz)= Silver (per troy oz)= Platinum (per troy oz.) Patiedium (per troy oz.) -3.50 -0.25 +1.50 \$399.75 \$132.00 Copper Lead (US prod.) Tin (Kusia Lumpur) Tin (New York) 134.0c 45.00c 15.38r 291.50 -0.13 -3.00

99.12p 144.47p 118.30p Lon, day sugar (ruw) Lon, day sugar (wha) Barley (Eng. feed) Maize (US No3 Yellow) Wheat (US Dark North) Unq Unq Unq Rubber (Jun) V Rubber (Jul) V Rubber (KL RSS No1) Coccrut Oil (Phil)§ Palm Oil (Malay.)§ Copra (Phil)§ Soyabeans (US) 815.0v ·100 Cotton Outlook'A' Index

JOTTER PAD The solution is HP Computer Systems.

CROSSWORD

No.9,081 Set by ADAMANT



5 One who takes flight could have been brave man before

6 I am so unyielding! (7)
7 Left damaged tree in outhouse where it is protected

13 The conceit of having cargo

15 Everyone in the Middle East can use plastic (9)

ing more sense (7) 21 Seasons for workers in the

10 Shares the interest (9)

near to transfer (9)

noon (5)

main (5)

1 Wine left in car - and it's French! (6) 4 Does each manoeuvre on the

way back (5) 8 And rule out clean money (7) 9 Wave and run into the vessel (7) 11 In the Creation it involves

13 Some of what was said was very musical (5)

14 Not old enough to graduate true, unfortunately, although 17 Work out reference to clover I'm first (8) (7)

Tm first (8) (7)
18 Make believe the centre has 19 Girl that is in credit is show. collapsed in the outskirts of Penge (8) 18 Easy to understand bow cover protected Unionist caught inside (5)
20 No way a visitor can have malaria (4)

No way a visitor can have malaria (4)

Solntion 9,080

21 Unexpected quality might

Solution 9,080

21 Unexpected quality might twice send us distraught (10)
23 Give entrance pass to Lords (7)
24 A game to cut short (7)
25 Join forces for line-out on the way (6)
26 Almost starting, not before time (6)

DOWN

1 Finish lawsuit with second defendant being imprisoned (5)
2 Members of the family let loose in a second (7)

Solution 9,080

RESTORATION MUCKRAKE IN A DUGE IN A NO IN A N

Novel E European

INTERNATIONAL CAPITAL MARKETS

Bank's gilt auction goes better than expected

and Maggie Urry in New York

European bond markets continued to trade in a tight range, with high-yielding markets again outperforming hunds. The dollar remained firm against other currencies, which favoured peripheral markets. Meanwhile, the US market drifted quietly lower on supply fears.

■ UK gilts drifted lower, ignoring sterling's firmness on the foreign exchange markets and the better-than-expected outcome of the Bank of England's gilt auction. Liffe's June long gilt future settled at 106%, down 3. Bids totalled more than twice the amount of bonds due 2021. The price tail, the difference between the average price and the lowest accepted hid, was only & compared with # at the previous auction in February. Mr Kevin Adams, a gilt strat-

egist at BZW, said market conditions were favourable. The bonds looked cheap both in absolute terms (the yield was 20 basis points higher than at the previous auction) and relative terms - the paper was around 7 basis points cheaper relative to the yield curve than in February.

However, he is concerned by forthcoming supply. He said the government had to raise £38.5bn before the end of the fiscal year. The 10-year yield spread of gilts over bunds stood at 177 basis points yesterday. Mr Adams said gilts had been supported by the rally of the high-yielding markets notably Italy. He warned of a possible correction in gilt yields once this support is withdrawn, to 185 or 190 basis points over German yields.

GOVERNMENT BONDS

■ German bunds closed slightly higher in moderate voluma. Liffe's June bund future closed at 96.96, up 0.03. Traders are awaiting today's Bundesbank council meeting. although few expect an easing in the repo rate.

■ French bonds traded quietly, marginally outperforming bunds. Matif's June notional future settled at 123.80, up 0.08. in the cash market, the 74 per cent OAT due 2006 closed at 105.80, up 0.12. The 10-year yield spread over hunds narrowed by 1 basis point, to 2. Analysts do not expect this spread to cross into negative territory again in the near future, unless OATs get very

■ ftalian bonds had their fourth consecutive bullish session, supported by political optimism and a slight decline in wage inflation to 3.8 per cent (year on year) in April, from 3.9 per cent in March. Liffe's June future on 10-year BTPs closed up 0.35 at 116.56.

year benchmark BTP closed at 101.50, up 0.24, its yield spread over the equivalent bund narrowing by 5 basis points to 305.

■ Spanish bonds also had a positive session. The June 10-year bono future closed at 99.78, up 0.11.

■ The US Treasury bond market drifted lower yesterday strong support from a weakenmorning ahead of the early afternoon auction of two-year notes. The Treasury was selling \$18.75bn of the notes, and traders predicted good demand for the paper around current levels. The sale will he fol-lowed today by a \$12.5bn auctlon of five-year notes, although this is not expected to go as well. in the cash market, the 10-

down 1 at 991, vielding 6.02 per cent. Meanwhile, the benchmark 30-year Treasury was down 'a at 89½ to yield 6.861 per cent. The June 30-year bond future was unchanged at 109%.

In the absence of any new economic statistics, traders pondered the outlook for inflation and interest rates. Mr Rob-ert Parry, president of the San Francisco Federal Reserve Bank, and a non-voting memher of the Federal Reserve's open market committee, warned in an interview that the economy was growing faster than he had expected three months ago. He said with little slack in the economy, the "inflationary risks are perhaps Near midday, the existing a little higher".

derivatives product two-year note was trading By Vincent Boland in Prague A new derivatives product that

icates for these markets and will allow investors access to the Czech, Hungarian and Polish stock markets without buying shares directly was unveiled vesterday, with the Bankers Trust said it had

launch of warrants on indices issued 42m Czech Republic of selected stocks from those Index Return Certificates, 12m for Hungary and 50,000 for Bankers Trust, the US investment bank, launched "index return certificates" based on indices for the three markets compiled by the international Finance Corporation,

World Bank. These are indices comprised of the shares of leading companies in which international investors are able to invest and which meet certain criteria for size and liquidity. The IFC Investable Indices for the markets are based on sbares of companies such as CEZ and SPT Telecom in the Czech Republic, Fotex, OTP and MOL in Hungary, and Elektrim in

the private sector arm of the

markets.

They are the first such certif-

the investment bank said they may be the first for any market using the IFC Investable Indices. The issues are aimed at retail investors seeking eccess to central Europe's emerging

Poland. Each certificate controls one-tenth of the index. The number of certificates issued is based on each market's potential for appreciation. The Czech market has lagged behind bourses in Bndapest and Warsaw since the beginning of the year and has been in the doldrums as investors

await the outcome of this

weekend's general election.

The certificates are denominated in D-Marks based on current exchange rates. Bankers Trust said they would be listed on the Freiverkehr markets in Frankfurt, Berlin, Düsseldorf. Hamburg and Stuttgart, and that it would make a market in

Ford Motor Credit's \$750m issue leads busy day

By Conner Middelmann

The primary eurobond market had another busy session yes-terday, absorbing a slew of US dollar deals and offerings to a wide range of other currencies.
Ford Motor Credit's \$750m five-year "Euro-Asian" hond was the largest deal of the day.

While some traders said it had a slow start, Lehman Brothers, joint leads with Merrill Lynch, said its portion of the issue had been heavily oversubscribed and was 35 to 40 per cent placed in Asia. The bonds are listed in Hong Kong and Singa-

A long-awaited \$500m fiveyear offering for the Council of Europe was similarly successful, meeting strong demand from institutional investors around Europe and with healthy demand expected in Asia, according to SBC Warburg, joint bookrunner with Merrill Lynch.

The bonds will be priced today to yield 16 basis points over Treasuries - an attractive 8-basis-point pick-up over comparable World Bank bonds and to date, \$150m of five-year

2 basis points over Canada's

recent five-year issua. This benchmark issue represents an important departure for the Council of Europe, which in recent years has been issuing mostly small, shorterdated deals targeted at Euro-

pean retail investors. The Commonwealth Bank of Anstralla issued \$400m of 10-year subordinated bonds. but unlike two such deals launched on Tuesday for

INTERNATIONAL BONDS

Banque Nationale de Paris and ING Bank, CBA's paper was structured like senior bonds. yielding a mere 38 basis points over Treasuries. This is likely to be CBA's last government-backed deal, as it is being privatised. The deal saw strong demand from the UK and conbookrunner Morgan Stanley.

tinental Europe, according to Elsewhere, PNOC Energy Development issued the most tightly-priced Philippine deal bonds yielding 170 basis points, also via Morgan Stanley. In sterling, Brazil's £100m of

three-year bonds met a warm reception desplte their relatively tight spread of 250 basis points over gilts. The pricing reflects the

dramatic improvement of emerging-market spreads in general and Brazil's standing in particular," an official at arranger HSBC Markets said. Last July, Brazil issued DM1hn of three-year bonds at a spread of 385 over bunds. Also in sterling, Bayerische

Hypo launched £150m of long four-year bonds aimed largely at retail investors, especially in Switzerland, where sterling's recent appreciation against the Swiss franc sparked retail buy-The Portuguese Navigator market saw its longest bond to date, a Esc10bn 10-year bond

ing, lead manager BZW said. for the Enropean Investment Bank. In anticipation of the June 20 launch of a 10-year Portuguese bond futures contract, "we have seen increased customer interest in 10-year escudo bonds," said a dealer at

Borrower	Amount	Coupon %	Price	Maturity	Fees %	Spreed bp	Book-runner
US DOLLARS Ford Motor Credit Co	750	6.875	99.431R	Jun 2001	0.30R	-46VA 5v-1	Membilians international
Council of Europe	500	(a)	laiR.	Jun 2001	0.25R	-: 5,W1 by:	MemiliSBC Wartury
C'wealth Bank of Australia(I)	400	7.125	99.563R	Jul 2006	0.37.57		Morgan Stanley & Co Inc
Seta Finance Corpli)	200	6.375	39.85R	Jun 1999	0.1875R		SEC Warturg
NOC Energy Deviment Corp	150	(2)#	(a)R	Dec 2001	0.625R	-1700'-7 5yt.	Morgan Startley & Cr. Inti
lewiett Packard Finance Coul	150	6.25	100.00R	Dec 1998	0,15R	-11"-AVI 5ym	Critical International
D-MARKS					0.25R	20151:5 74:	Gorman Same
OSL Finance	500	5.375	99.73R	Jun 2001	0.15R	-30/2 175-0-7	Barone Parties Deutschan
Bagab Overseas‡	200	(fize	99 933R	Jun 2000	U.15N		Da
NEN Colorador	475-	6.60	99.98	Jun 1998	1.50		Вема Витов
Republic of Finland(c)+	12bn	0.60	32 30	JUN 1990	1.50		DE NE LE UNE
WISS FRANCS	400	4.00	103.25	Dec 2001	2.00		OKS-Samera Neroll Lynch
Crédit Local de France(s)	100 100	4.25	101.50	Dec 2000	1.75		Ment Litter Capital Mich
Merrifi Lynch & Co(s)	130	00	101.50	<u> </u>			74 11 2/12 22 11 11 11 11 11 11 11 11 11 11 11 1
TERLING			******			50mm 1 10	Common Town Hand
Bayensche Hypo(s)	150	7.625	99.538R	Dec 2000 Jun 1999	0.25R 0.70R		Barbays de Zoete Wedd - HSBC Warkers
ederative Republic of Brazil	100	9.75	99.719R	אלאו טער	0.708	-520124-93	F580 73413
KULDERS							
Presidner Finance	300	5.50	99,12R	Jun 2002	0.275R	-10.1/8*2-02;	NG 92-35
CANADIAN DOLLARS							
B Schleswig-Holstein(s)	100	6.375	99.324R	Dec 1999	D-50M	-5(7*4 %-99)	Hartros Bath
USTRALIAN DOLLARS							
letional Australia Bank	100	8.75	101,438	7m 5000	1.75	-	ASN Armo Heare Govett
SCUDOS							
Liropean Investment Bank	10bn	8.50	100.738	Jun 2006	2.00		Banco FrantaUBS

UBS, joint lead with Banco tional investors, rather than its usual retail base. It is the first In the D-Mark sector, DSL Bank issued DM500m of five-

year bonds aimed at instituoff the new five-year government benchmark note, the Bobl 118, lead manager Goldeurobond to have been priced man Sachs said.

UBS wins mandate for Croatian bank placement

-- Lew coupon yield -- -- Medium coupon yield -- -- High coupon yield --May 29 May 28 Yr, ago May 29 May 28 Yr, ago May 29 May 28 Yr, ago

7.52 6.24 8.31

By Gavin Gray in Zagreb

Union Bank of Switzerland was mandated vesterday to arrange an international equity placement for Zagrebacka Banka. the second-largest bank in Croatia. The placement will be for up to 10 per cent of the bank's share capital, which has a total book value of DM289m, and is expected to be completed by mid-July.

Demand for Croatian shares has been high this year because the economy is beginning to grow rapidly after the Dayton peace accord. The first international equity offering for a Croatian company, drugs group Pliva, was 20 times over-

2.63

subscribed and its share price has nearly doubled since its listing on the London stock exchange in April.

ill herex

EXCHANGE LETTING THE

Zagrebacka Banka hopes that its placement will achieve a fair price for its stock, which trades at a 40 cent discount to hook value on the illiquid domestic market. Some 60 per cent of the shares are held by private investors.

The bank operates Croatia's largest retail network and has withstood the economic downturn that followed the war in 1991. It recorded a profit of \$30m in 1994, the last year for which accounts are available. Assets were \$2.5bn and shareholders' funds were \$332m.

7,84 8.34 8.38

May 29 May 28 Yr. ago

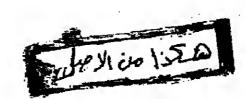
1,38 3.50

BENCHMARK GOVERNMENT BONDS	M BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%	FT-ACTUARIES FIXED INTEREST INDICES
Red Day's Week Month Coupon Date Price change Yield ago ago	Price Jul Aug Sep Dec Jul Aug Sep Dec	Price Indices Wed Day's Tue Accrus UK tates May 29 change % May 28 Interes
Australia 10,000 02/06 107,7460 -0,070 6,82 6,77 8,87 Austria 6,125 02/06 98,0300 -0,090 6,40 6,46 8,42	9600 0.61 0.81 1.01 0.89 0.43 0.73 0.83 1.76 9660 0.28 0.57 0.76 0.76 0.70 0.99 1.16 2.06	1 Up to 5 years (19) 121.14 -0.01 121.84 2.03 2 5-15 years (19) 144.82 -0.12 145.84 1.86
Belgium 7.000 05/08 102,4000 +0.020 6.66 8.68 8.66 Canada 8,750 12/05 108,0100 -0.080 7,55 7,86 7,71	9700 0.14 0.38 0.55 0.62 1.06 1.30 1.47 2.39 Est, vol. total, Calls 5957 Pula 5410, Previous day's open int., Calls 109888 Puls 100339	3 Over 15 years (5) 159,04 0.05 160,91 2.50 4 (rredeemables (5) 179,95 -0.04 180,02 1.14
Pennank 8,000 03/06 104,1600 -0,080 7.36 7.40 7.22 France BTAN 5,750 03/01 101,1250 -0,120 5.46 5.55 5.64	Italy	5 All stocks (56) 140.34 -0.05 141.39 2.06
OAY 7.250 04/08 105.8000 +0.120 6.44 6.47 6.47 Sermany Bund 6.250 04/06 98,7500 -0.030 6.42 6.45 6.38	M NOTIONAL ITALIAN GOVT, BOND STP) FUTURES	index-finited
eland 6,000 06/06 102,6800 -0.090 7,57 7,59 7,64	(UFFE)* Line 200m 100ths of 100%	6 Up to S years (1) 198.57 0.02 196.53 0.81
apan No 140 6.600 06/01 119.451S -0.010 2.30 2.41 2.40	Open Sett price Change High Low Est. vol Open Int. Jun 116.40 116.56 +0.35 116.59 118.20 38356 \$1183	7 Over S years (11) 185.87 -0.14 186.13 1.27 6 All stocks (12) 185.99 -0.14 188.24 1.26
No 192 3.000 09/05 98.6734 -0.110 3.16 3.25 3.30 etherlands 8.000 01/06 97.8400 -0.080 6.30 6.36 6.32	Sep 115.87 115.98 -0.38 116.00 115.60 8183 10960	Average gross redemption yields are shown shows. Coupon Blands: Low: 0%-7%
orbigal 11.875 02/05 117.9200 +0.180 6.83 6.64 6.98 pairi 6.800 04/06 96.5000 +0.110 9.02 6.15 6.13	M ITALIAN GOVT, BOND (STP) FUTURES OPTIONS (LIFFE) Linz200m 1000m of 100% Strike PUTS	
veden 6.000 02/05 85.8194 +0.110 8.39 6.48 6.34 < Gibts 6.000 12/00 102-09 -: 7.39 7.42 7.43	Price Sep Dec Sep Dec	
7.500 12/06 96-02 -4/32 6.06 6.05 6.02 9.000 10/08 106-10 -3/32 6.12 8.17 8.11	11550 1.96 2.46 1.46 2.50 11600 1.69 2.23 1.73 2.87	FT FIXED INTEREST INDICES
5 Treesury ' 6.875 05/06 101-16 -3/32 6.57 6.69 6.53 6.000 02/26 86-06 -4/32 6.66 6.87 6.80	11850 1,44 2,01 1.96 3.15 Est, vol. total, Cuita 3613 Puits 1771. Previous day's open Ira., Cuita 28670 Puits 25425	May 29 May 29 May 24 May 23 May 22 Yr ago Govt Secs. (UK) 92.24 92.26 82.36 82.35 82.29 94.31
CU (French Govt) 7.500 04/05 104.0400 -0.050 6.87 6.91 6.85		Fixed interest 111,75 111,86 111,91 112,09 112,10 113,68
ndon closing, "New York mid-day. Stock (including withholding tex at 12.5 per cent psychology by represidents).	Spain NOTIONAL SPANISH BOND FUTURES (MEFF)	* for 1896. Government Securities high since completion: 127.4 (09/01/35), low 49 15/10/25 and Fixed Imarest 1928. SE activity Indican relational 1874.
eas: US, UK in 32nds, others in decimal Source: MMS interreptored	Open Sett price Change High Low Est. vol. Open int.	
S INTEREST RATES	Jun 99.77 99.78 - 99.84 99.48 54.721 61,105	FT/ISMA INTERNATIONAL BOND SERVICE
Treasury Bills and Bond Yields One worth	Sep 99,04 99.23 - 99.18 98.98 786 2,345 UK	Listed are the latest internetional bonds for which there is an adequate secondary
a min	MOTIONAL UK GILT FUTURES (LIFFE)* 250,000 32nds of 100%	bound Bid Offer Chg. Yield
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	Sep 105-13 105-10 -0-03 105-13 105-03 57800 62551	ABN Armo Bank, 7 ¹ ₄ 05
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ND FUTURES AND OPTIONS	105 0-59 1-22 1-41 1-51 0-39 1-02 1-21 2-41 105 0-29 0-56 1-10 1-35 1-09 1-36 1-54 3-15	Back Ned Generation 7 99 1000 1013 1023 6.33 Austra 42 0
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	* LIFTE futures also traded on APT All Open Interest figs. are for previous day.	## 55, 23 3500 89 ³ s 89 ⁷ s -3s 1, 1,97 World Benk 5 Japan Dev Bk 8 ³ s 01 500 105 ³ s 105 ³ s 105 ³ s -3s 8,77
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51-20C 984F 13.07 8.75 118% -16 1241s 118%	Prospective real redemption rate on projected inflation of (1)	Wall Disney 8 ¹ ₂ 01 1300 98 ¹ ₂ 98 ¹ ₂ -1 ₂ 6.89 Quebec Hydro World Bark 8 ¹ ₂ 05 1500 98 ¹ ₂ 98 ⁵ ₃ 1.01 Quebec Provi
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© 1998	Index	DEUTSCHE MARK STRAIGHTS
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Belgium 5 to 00	7000	104	1042	4	6.89	GR 71-00	700	1034	1037	٠,	3.05	Land Secs	8k 7 00 £	200	10378		+4
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Zarracki 8³₃ 05	1500	954	95%	-4	7.13	Fritani 74 99	30	111	1114	-2	3.70	Seem To	87 03 E nr 11½ 29 E	250	1107	1023 ₄ 1105 ₈	-
Smarts RI- 97	2000	1075	1004	-	5.88	Iceland 7% 00	10	1134	1141	•	3.85	OWN FIRE	Power 11 01 5	150	112		4
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AS 10 99 NCF 91 ₂ 98 pan 81 ₂ 99	200	1074	108 ^L a	•	8.76	British Columbia	74 00 CS 1250	1015	1014		7.59				99.97	99.99	
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tatti Barik 6 g 05	1500	9612	965	•	1.01	Quebic Prov 10	04 CS 1000 1 ₂ 09 CS 200	10812	108%			Alled-Lyons	63, 09 £	 200 6		12 9812	
orto Berk 8% 99	1500	10814	1063		6.37		01 Ecu 1100 1 D4 Ecu 1000		1124		6.37	CODE ALBOOR	64 05 £	66 1		나 100% 18 179년	
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4.26 S yrs S.14 1S yrs S.43 20 yrs B.12 irred.† 4.91

Up to 5 yrs



MARKETS REPORT

The dollar yesterday continued

its slow upward march against the yen and the D-Mark, but lacked the momentum to break

through important technical

Markets are still searching

for the catalyst that will drive it above DM1.5555, a 50 per cent retracement of the 19945

decline, and Y110.50, a 38.2 per

cent retracement of the five

year downtrend between 1990

retreated to finish in London at

other notable move came from

the Italian lira which crept

towards the L1,000 level

against the D-Mark, it reached

L1,003.61, before retreating to

close unchanged at L1,007 amid

reports that the Bank of Italy

esbank might today move to

Expectations that the Bund-

(FM) 7.2253 (FFr) 7.9445 (DM) 2.3477 (Dr) 370.515

(C)

4.9960

165.211 3.8001 2.2161

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

USA
Peditic/Milddile
East/A
Australia
(AS)
Hong Kong (HS)
India (HS)
Isrpel (Shk)
Jupan (MS)
New Zesland (MS)
New Zesland (MS)
New Zesland (MS)
New Zesland (SR)
Sudi Arabia (SR)
Singapore (SS)
South Africat (R)
South Korsa (Worth

POUND SPOT FORWARD AGAINST THE POUND

+0.0436 099 - 270 +0.1398 416 - 839 -0.0284 650 - 749 +0.0169 178 - 327

+0.0069 178 - 188

+0.0076 132 - 145 +0.0043 841 - 961 +0.0965 482 - 625

38,7832 +9,1859 014 - 768 6,6979 +0,0259 690 - 986 2,1450 +0,006 436 - 484 6,6619 +0,0151 523 - 715 1197,55 +7,71 712 - 739 42,1820 -0,0141 619 - 021 38,5327 +0,1906 137 - 517

18.79 10 11.42 3.863 9.322 0.383 3.453 9.043 3.759 4.622 8.772 4.682 8.070 4.350 5.971 5.490

Change

+0.0003

Over- 7 days night notice

Latest

3.384 8.165 0.336 3.024 7.921 3.293 4.047 7.684 4.110 7.945 3.811 5.230 4.009 6.402

Hìgh

0.7877 0.7933 0.8000

was huying D-Marks.

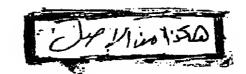
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and 1995.

Finland France Germany Greace Ireland Italy Luxembo Netherlan

7.00 7.00 3.70 3.70 4.50 4.50



HURSDAY MAY 10 kg

Europeal es produc these marks the first for any new testers are shown as testers are shown

Europe's soil in a construction of the metro continuation of the metro After nearly breaking above DM1.55 and Y109, the dollar DM1.5453, from DM1.5483, and at Y108.745, from Y108.625. The

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100 m 1. 3 BEB :

70 Ta 15

1.00

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UK INTEREST RATES LONDON MONEY RATES

64 - 54 0½ - 52 04 - 54 6½ - 64 6½ - 62 - 6½ - 54 6½ - 6 62 - 64 62 - 64 - 52 - 54 5½ - 54 5½ - 54 - 52 - 54 5½ - 54 5½ - 54 - 52 - 54 6½ - 54 6½ - 64 Interteents, Searing
Starting CDs
Treasury Bills
Benk Saffs
Local authority depa. 512 512 513 512 513
Discount Market deps. 614 576 6 579 Up to 1 1-3 month month Certs of Tex dep. p.1400,000) 2½g 5½ 5 5 4.

Certs of Tex dep. under £100,000 e 2½gpc. Depocks withdrawn for cash 1½pc.

Avs. terder rate of discount on May 17, 5.8155pc. EOG0 fixed rate Stg. Export Finance. Make up Apr 30, 1996. Apreed rate for period May 26, 1996 to Jun 25, 1996, Schemes II & 87 7.35pc. Period rate for period May 30, 1996 to Jun 25, 1996, Schemes IV & V 6.070pc. Finance House Base Pete 8.5pc from May 1, 1996 THREE MONTH STERLING PUTURES (LIFFE) 2500,000 points of 100% High Sett price Change

Est. vol Open int. 2741 66228 8888 80338 6682 69733 2738 48824 1867 37319 93.91 93.84 93.82 93.32 92.94 93.80 93.81 93.59 93.28 92.89 +0.01 93.90 93.84 93.62 93.31 92.82 +0.01 SHORT STERLING OPTIONS (LIFFE) \$500,000 points of 100% PUTS Dec Sep 0.10 0.23 0.44 Sep 0.18 0.06 0.02 0.01 0.11 0.34

BASE LENDING RATES Bank of Ireland 6.00
Bank of Scotland 5.00
Bancleys Bank 6.00
Bracleys Bank 6.00
Bracleys Bank 6.00
Bracleys Bank 6.00
Cibbank NA 8.00
Cibbank

Dollar firmer as markets wait on Bundesbank cut the repo rate were height-ened by its aggressive action in the money markets, including the use, for the first time in . more than two years, of cur-

rency swaps. Some observers saw this as a prelude to cutting Sterling reached a 15 month high of DM2.3485 against the D-Mark, helped by the firmer dollar and strong foreign buy-ing at the UK government bond anction. It later closed at DM2.3477. It was also firmer against the dollar at \$1.5193, from \$1.5124.

In 1994/5 the dollar received a bloody nose in the currency markets. For the past year, it has been the yen that has been in sharp retreat, with the D-Mark joining it in recent Found in New York

May 29 E spot 1 mm 3 mm 1.5245 1.5235 1.5222 1.5175 1.5125 1.5127

48.2939 48.1120 48.1578 48.2939 48.1120 48.1578 9.0749 9.0383 9.0546 7.2350 7.2030 7.2209 7.8570 7.8175 7.9304 2.3514 2.3385 2.3428

1.5195 1.5135

1.5145 1.5078 2.0893 2.0806 11.2640 11.1923

1.5197 1.5137

1197.96 1191.96

offer speaks in the Found Spot table show only the less three decimal places. Forward in in interest rates, Storing Index calculated by the Bank of England, Been everage 1999, at the Dollar Spot tables, durind from THE WAMPELTERS CLOSING SPOT FATES, Son

4.885 2.019
2.589 1.073
2.955 1.225
1 0.414
2.413 1
0.099 0.041
0.894 0.370
0.873 0.403
1.196 0.496
2.271 0.941
1.215 0.503
2.348 0.973
1.128 0.467
1.546 0.841
1.421 0.589
1.892 0.784
ddsh Kronor par 10; 8

+0.932 109 - 313 188.313 164.480 164.486 5.3 182.996 6.4 158.581 5.2 +0.0242 982 : 020 3.8020 3.7797 +0.0074 133 - 189 2.2189 2.2065 2.2201 -2.7 2.2296 -2.6 2.2634 -2.2 +0.1959 074 - 768 39.8769 39.7014

months too. Now, it seems, it is the turn of the Swiss franc, which many economists consider the most overvalued of the world's leading currencies. Since touching SFr0.8052 at the beginning of April, the Swiss franc has rallied by more

than two per cent against the D-Mark to around SFr0.823. Analysts at UBS in London believe this to be the first stage of a move towards SFr0.835 in twelve months. Others are much more bearish - Goldman Sachs are forecasting SFr0.88 in six months.

Mr Paul Lambert, currency economist at UBS in Zurich, says the main factor behind the correction in the franc has been US bedge funds funding purchases of US treasuries through the franc - that is, horrowing francs, and then selling them.

This trade, he argues, has probably now played itself out, but two other factors should continue the trend; a correc-1993 to 9 19-year high of SFr0.7982 last September. tion to the recent sharp rise in

2.6 46.9278 2.8 2.1 2.8785 2.1 0.7

0.0 4.0

97.7

95.0

4,005 2,131 2,433 0,824 1,987 0,082 0,738 1,827 0,901 0,985 1,869 1 1,833 0,927

Change

IES (IMM) 282,500 per £

EMS EUROPEAN CURRENCY UNIT RATES

159,725

2.14274 39.3589 0.793732 1.91504 19.4740

1.53 0.98 0.58 0.30

THREE MONTH EURODOLLAR (INN) 81m points of 100%

+0.01

-0.01 --

94.98 94,81 94.61

EASURY BILL FUTURES (IMM) \$1m per 100%

94.52 84.33 94.04

All Open interest figs. are for previous day

III EUROBIANIK OPTIONS (LIFFE) DM1m points of 100%

9775 0.06 0.12 0.14 0.12 9800 0.01 0.05 0.08 0.32 Est. vol. sotal, Calls. 810 Puts 0. Previous day's open int., Calls. 8165 Puts

0.82 0.62 0.43

Dec

E EUROLEIA CIPTIONS (LIFFE) L1000m points of 100%

J.O

84.51

+0.0013 +0.0010

+0.0056 +0.0064 +0.0050

-0.00069 +0.002 -0.000698 +0.00017 +0.0011 +0.339 -0.00551

302.195 -0.106 3.19 1828.59 +0.59 -8.43 0.816136 -0.002864 3.75 0.816136 -0.002864 3.75 0.75 positive change danotiss is week current

2.55 1.98 1.48 1.04

2.072 1.103 1.259 0.426 1.029 0.042 0.381 0.997 0.414 0.509 0.967 0.517 1 0.480 0.605 0.605

2.019 1.079 2.065 1 1.373 1.262 1.660

0.9209 0.9323 0.9432

3.19 -8.43 3.75

0.03 0.23 0.80 1.27 2.10

94,51 94,32 94,02

94.97 94.80 94.61

Est. vol Open Int.

41,295 2,433 162

3.90 1.98 1.63 1.34 1.27 1.27 1.04 0.37 0.00

-1,60 10.89 -2.13

0.70 1.13 1.74

Est. vol Open int.

20,834 359,851 27,925 364,020 45,671 367,276

Sep 0.04 0.11 0.26

Dec

0.11 0.15 0.21

21.43 11.40 13.01 4.404 10.63 0.437 3.936 10.31 4.285 5.267 10 5.349 10.34 4.959 8.807 6.259

0.9221 0.9333 0.9432

1.5123 0.5

2.3 16.4122 2.6 2.6 47.9478 2.8 2.0 9.0216 2.1 0.7 7.2128 0.7 2.1 7.9024 2.1 2.5 2.3323 2.6

2.0844 0.4 2.0808 0.8 2.0727

1,5185 0.9 1,5171 0.6

with the feet for the property of the property

5.443 2.896 3.306 1.118 2.700 0.111 1.099 1.538 2.541 1.359 2.627 1.260 1.729 1.590 2.117

Est. vol Open Int.

12,995 82,536 524 5,375 43 1,519

20.78 11.06 12.62 4.272 10.31 0.424 3.819 10 4.157 5.110 9.700 5.188 10.03 4.811 6.603 8.062

500.0 266.0 303.7 102.8 248.0 10.20 81.85 240.8 100. 122.9 233.4 124.8 241.3 158.9 148.1

408.8 216.4 247.1 83.60 201.7 8.297 74.72 195.7 81.35 101.9 196.3 94.15 129.2 118.8 158.2

0.9210

2.15214 39.3960 0.792214 1.91007

185.792 8.40608 7.28580

2106.15 0.796652

NON ERM MEMBERS

Strike Price 1.490 1.500 1.510 1.520 1.530

Lira Against the D-Mark (Lire/DM) 1,150 1,200

1,250

CURRENCIES AND MONEY

Swiss money market interest rates, and increased foreign currency investments by Swiss investors, diversifying out of under-performing Swiss bonds. The correction UBS is predicting is fairly modest in the context of the franc's 17 per cent appreciation relative to the D-Mark from mid-February

Analysts are confident that to stimulate the economy. UBS estimate that the Swiss economy is heading for its sixth consecutive year of helow

■ The value of the lira has also been occupying the market as speculation about Italy's re-entry into the ERM has risen. Mr Marco Pianelli, economist at Nomura in London, argues that "a central parity to the D-Mark of L1,000, which is a nice round number and just about where the lira is trading now, would be an acceptable rate to the Germans and French, although less so for Italian industrialists."

He believes, though, that this rate would still offer Italy a small margin of competitiveness. By some measures of purchasing power parity, the lira is worth around L900 against the D-Mark.

Sterling is the beneficiary the Swiss National Bank will of a benign conjuncture in the he happy to encourage an currency markets - ironically, at a time when the government's position looks ever more bleak. On the one hand, it is profit-

italy week ago Netherlands

week ago

Japan week ago

US Dollar CDs

week ago ECU Unked De

week ago SDR Linked Da

Belgian Franc Danish Krone D-Mark Dusch Guilder Franch Franc Portuguese Esc. Spanish Peseta Sterling Swigs Franc Can. Dollar US Dollar US Dollar

S LIBOR FT London

Westminster.

Mid rates are shown for the deressic Money Rates, US\$ CDs, ECU & SDR Linked De
EURO CURRENCY INTEREST RATES

Short term rates are eath for the US Dollar and Yen, others: two days' notice.

THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate (FFF 5m)

-0.01

THREE MONTH EUROMARK FUTURES (LIFFE)" DM1m points of 100%

+0.01 +0.02 +0.03 +0.03

THREE MONTH EUROLINA FUTURES (LIFFE)" L1000m points of 100%

+0.03 +0.03 +0.02

Change

+0.04 +0.05 +0.04 +0.04

-0.01 -0.02 -0.04

MONTH REU FUTURIES (LIFFE) Ecutin points of 100%

Futures Traders:

Save on Every Trade

Sett price Change

Sett price Change

Sett price Change

91.34 91.99 92.26 92.28

Sett price

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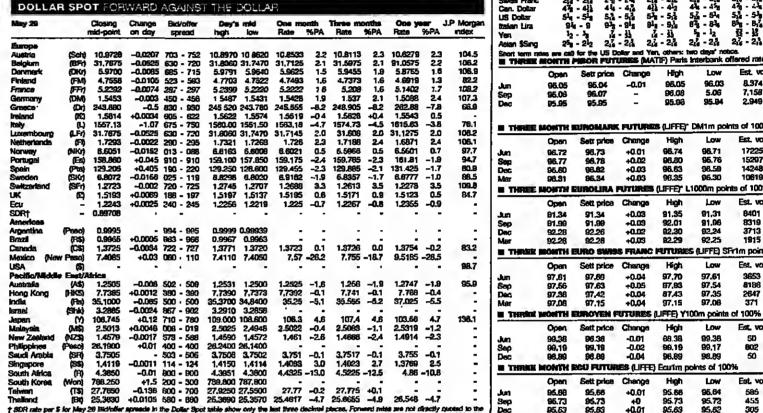
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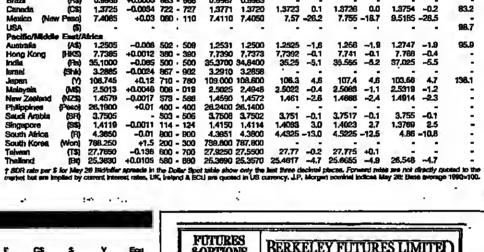
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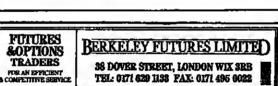
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ing from the rally in the dollar. On the other, as economists at Chase in London argue, it may be the beneficiary of almost any EMU scenario. "If EMU goes ahead with relaxed convergence criteria, sterling is likely to benefit as a safe haven if it stays out, while if it joins such a monetary union, it could be expected to be at a somewhat higher central rate." It may also be that the market is both discounting, and stating a preference for, a

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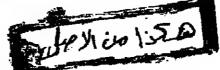
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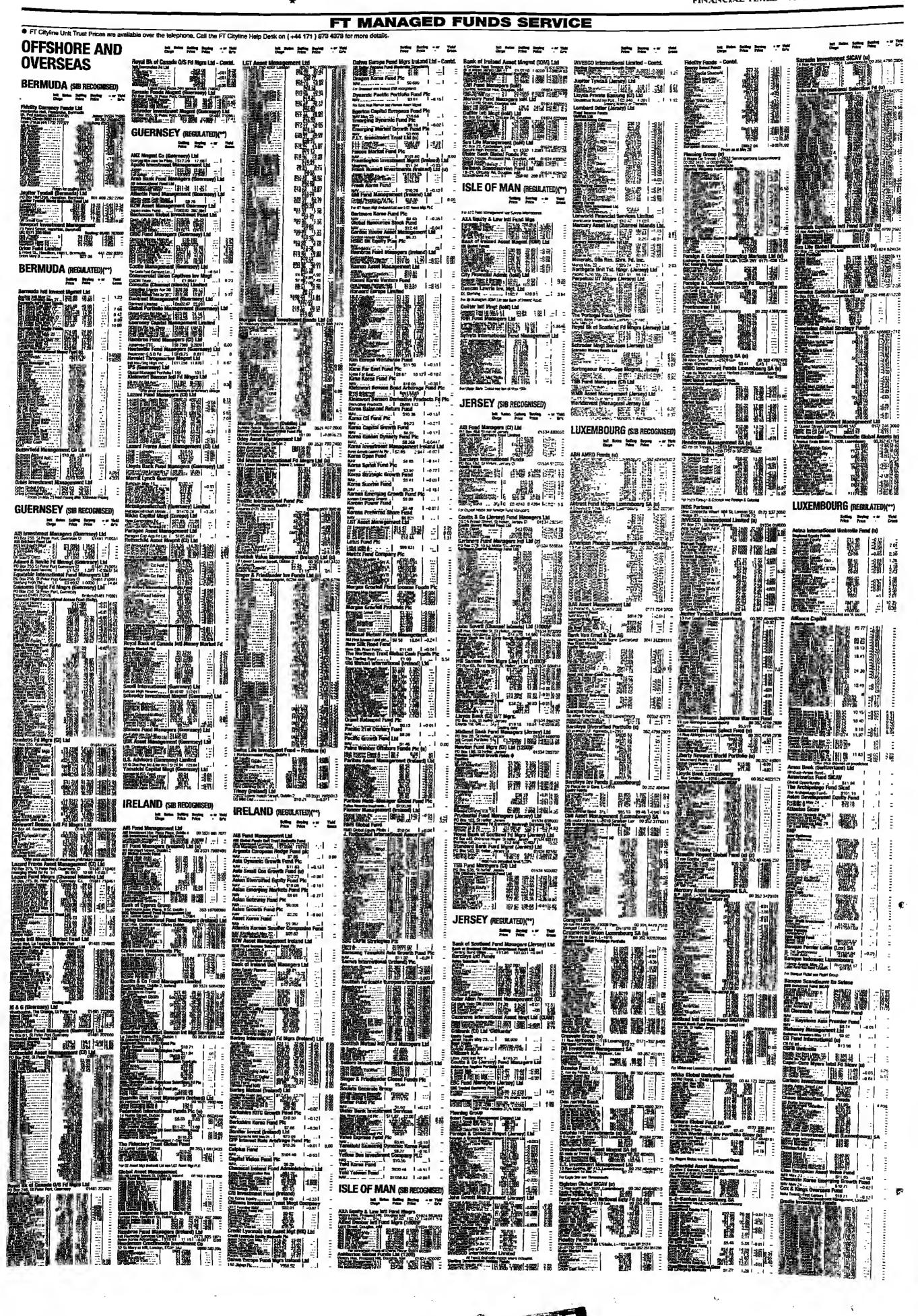
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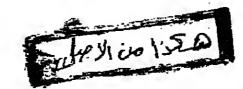
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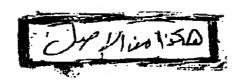
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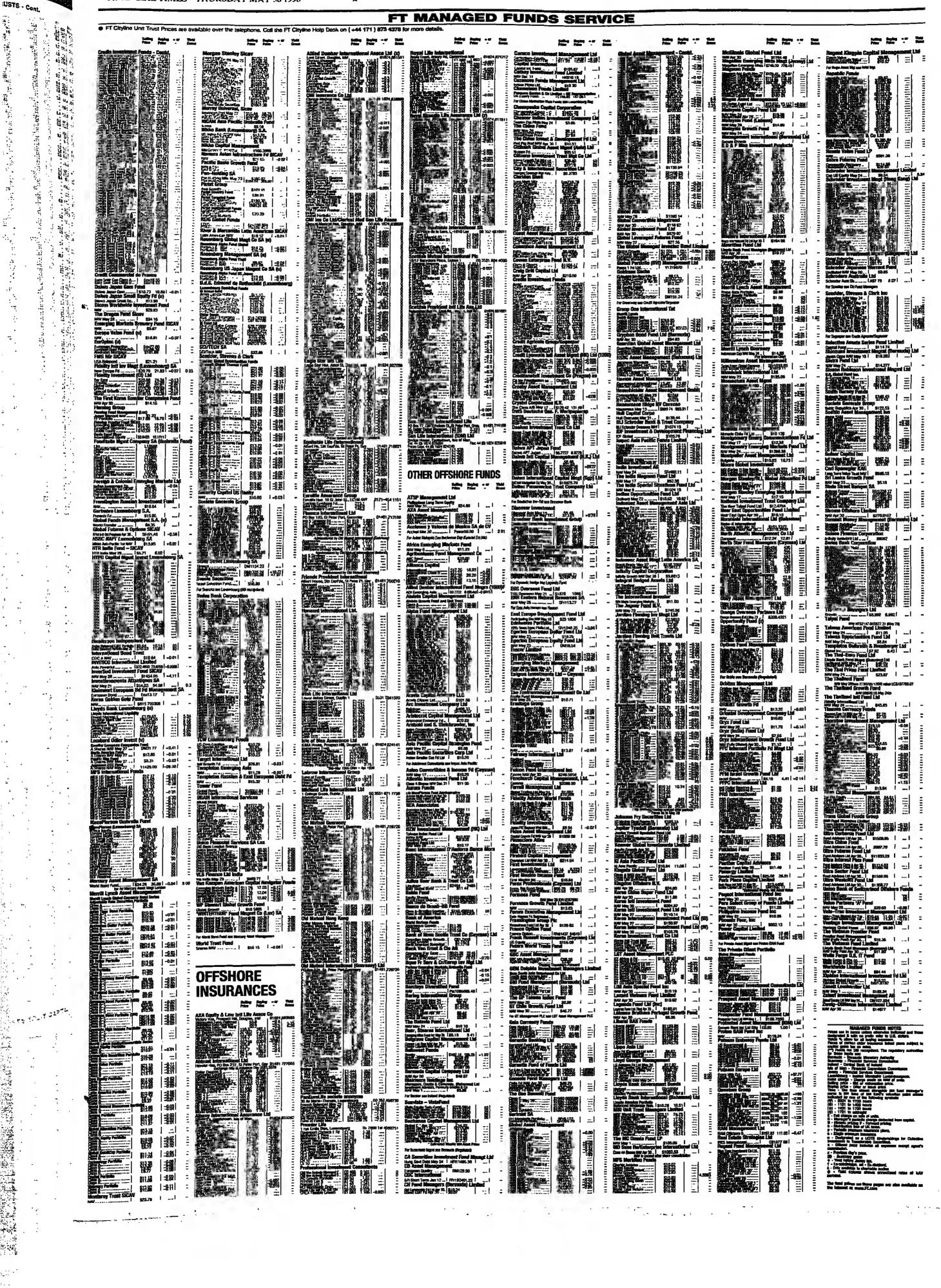




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LONDON STOCK EXCHANGE

Footsie edges higher as bid battle develops

More bid activity in the utilities sector and a reasonably successful outcome to the £3bn gilt auction helped the UK stock market move ahead again vesterday. But trading continued to be subdued.

Sonthern Electric entered the takeover battle for Southern Water with a £1.6bn offer, which topped the previous day's bid, now worth £1.54bn, from Scottish Power.

The battle provoked further interest in the water sector, as investors speculated on the next potential bid candidates. Water provided the top four FT-SE Mid-250 index performers and three of the top six in the FT-SE 100 index. With British Gas and BT also per

forming well, the utilities area held the market up in the face of Tues-day's overnight weakness on Wall et, where the Dow Jones Industrial Average dropped 53 points. The Dow's fall meant the Footsie started the day on a bad note, falling 8.5 points early on, hut the index quickly recovered.

One early worry was relieved in the morning when the £3bn longdated gilt auction proved reasonably successful, with cover of around two times. Nevertheless, gilts ended slightly down on the day, with the benchmark 10-year

issue an eighth of a point lower. There was some modest weakness on Wall Street in the afternoon.

where the Dow was 4 points lower by the close of London trading. But the Footsie held up well, backed by a strong futures market and finished the day around its high at 3,775.8, up 15.5. The Mid-250 gained 10.4 points to 4,514.8.

in spite of the stimulus of the Southern Water hids, the UK market seems to lack a sense of direction. Turnover continued to indicate that dealers were enjoying half-term holidays with their children, with only 714.3m shares traded by the 6pm count. The value of customer business on Tuesday

from the Southern Water bid. Few analysts are taking an

aggressive line on the market's likely direction. Mr Tim Brown, market strategist at UBS, said: "The market feels very bank holidayish. There does not seem to be a vast amount of turnover. People are sitting on their hands and waiting to see what happens next. They have enough cash to feel apprehensive about selling equities and the political background is making them apprehensive about huying."

The latest note on the UK market from Goldman Sachs says that "hopes for another base rate cut are receding following indications of

contrasts with contiouing, hut thankfully not worsening, gloom among manufacturers".

Mr Paul Walton, Goldman's UK strategist, still thinks that political risk will cause the Footsie to fall to 3,400 by the year-end but, in the short term, he says: "An equity market stuck in the 3.650 to 3.850 range now seems the most likely However, Mr Corey Miller, who

recently joined Credit Lyonnais Laing as a strategist, sees some optimistic signs, pointing out that the prospective price/earnings ratio on the London market is an undemanding 14.



■ FT-SE 100 INDEX FUTURES (LIFFE) \$25 per full index point

+21.0 FT-8E MID 250 INDEX FUTURES (LIFFE) \$10 per full index point

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■ FT-SE 100 INDEX OPTION (LIFFE) ("3775) £10 per full index point

E EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

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Rival bid buoys

Blood is thicker than water and the prospect of a bloody bid battle duly pumped the water sector higher yesterday. Soutbern Electric confounded the expectation of some analysts by topping Scottish Power's bid for Southern Water. The regional electricity group's counter-offer, worth £1.6bn, not only raises the heat in the bid war but lifts the temperature throughout the

Insiders say Southern Electric, which has had its expansionist dreams shattered so many times before, has to succeed and is prepared to pay up to £15 a share for Southern Water if the battle goes that far,

Scottish Power is probably ready to go the distance as well, hut all investors are aware that there is bound to be a loser somewhere along the

ment being touted was that PowerGen, thwarted in its ambitions to taker over another rec, could plausibly bid for Severn Trent.

Elsewhere, Wessex is seen as a rational target, as is Anglian, the east of England water authority, which released top of the range figures and a big

additional 19 to 707p in acknowledgment of the heavy price that it will have to pay. Meanwhile, Scottish Power bounced 6 to 325p and Southern Water added a fur-

ther 46 st 9870. Among the other takeover andidates within the sector, Thames gained 35 at 599p, the biggest rise in the Footsie. It was closely followed by Severn Trent, up 34 to 595p in turn-

over of 4.8m. The second line index was topped hy Yorkshire, which jumped 68 to 758p. Wessex, which rose 28 to 360p, and Anglian, up 27 at 500p, with an additional lift from well received figures.

Lucas recovers

Motor engineer Lucas Industries, a dull market lately on talk of "take profits" advice from a leading broker, recovered a penny after another energetic two-way pull for the

Friday's announcement that Lucas's talks with Varity, of the US, were progressing well was said to have been interpreted by one City engineering team to be something of a sell signal, on the basis that Lucas was heading for an outright

A merger, so the story went. could well be what Lucas has in mind to rule out the long vaunted hostile bid for the group. A deal with Varity would put Lucas "out of

However, the stock clawed back a penny to 234p in 3.4m volume. "If anyone is keen to buy Lucas, they will simply be waiting to see what sort of deal Southern Electric dipped an is planned with Varity before making a move," said Mr Zafar Khan, analyst at SGST.

BT in demand

The recovery in sentiment at telecoms giant BT gathered pace and the shares surged strongly for the second day running in solld volume.

Two weeks ago, the stock was all about a tough-talking regulator and the shares slid to a 52-week low of 3264p. But recent feed-hack from the industry suggests that Oftel is in a more conciliatory mood than was earlier suspected.

"The message we are getting is that Oftel does not want confrontation. This makes BT's 7 per cent yield look a good buy," said one leading sector watcher.

Oftel's price cap proposals are due to he announced shortly, possibly on Monday. BT moved up 81/4 to 3481/4p in 8.9m traded, for a two-day

gain of more than 4 per cent. Mobile phones group Vodafone put on 5 at 2580 ahead of

next Tuesday's annual results. British Gas bounced 7 to 184%p, with dealers pointing the finger at HSBC James Capel which, they ssid, had decided that the stock was oversold. Capel was unavail-

able for comment.

Oil majors dipped on the back of weaker oil prices, selling in New York, and caution ahead of the next Opec meeting, which begins on June 5. BP shed 5 to 562%p and Shell Transport 8 to 930 ip.

British Airways added 3 at 568p as sentiment improved ahead of next week's traffic returns for May. Partly as 8 result of unfavourable Easter timing, the airline achieved disappointing traffic flows in April, but hopes have begun to run high for a much improved outturn next Wednesday. Egrotumnel rallied on news

TNANCIAL	. TIME	SEQ	UTTY	INDIC	ES			
	May 29	May 28	May 24	May 23	May 22	Yr ago	High	"Low
Ordinary Share	2806.9	2793.6	2785.5	2787.0	2799.0	2507.J	2885.2	2596.7
ard. div. yield	3.97	3.96	3.99	3.98	3.97	4.26	4.08	3.75
E ratio net	16.28	16.22	16.19	16.21	18.28	15.88	17.25	15.96
/E ratio na	12.06	16.01	15.97	15.99	16.08	15.64	17.03	15.76
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	May 29	May 28	May 24	May 29	May 22	Yr ago
SEACI bergains	33,638	33,835	31,158	32,593	34,111	22,30
Equity turnover (Cm)†	-	1308.2	1703.2	2187.5	2286.5	1198.3
Equity bargainst	-	39,912	37,310	39,102	41.641	32.28
Shares traded (mitt	-	474.3	602.1	789.2	735.7	536.
†Excluding intra-meries b	uniness and o	WOTBOOK TUTTO	MET.			
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LIFFE Equity options 133 Total Highs Total Lows

that the group had stepped into the thick of the cross-

Channel price war. The Channel tunnel operator is drastically reducing its shuttle prices, and the stock put on 2 st 87p. Turnover in London was negligible, but reached 4.2m shares in Paris.

The view among analysts is that the group is simply matching the sort of discounts offered by the ferry groups. P&O ended all square at 5230. AIM newcomer Prism Rail

stormed to 205p on first day dealings. The stock was floated at 100p. Cadhury Schweppes was ahead 10% at 488%p on the

back of a couple of brokers changing their stance. Strauss Turnbull was said to have turned more positive, after being a seller for the past six In the breweries, pubs and

restaurants sector. Bass continued its unabated rise since its recent results, adding 10 at 819p. Compass Group, which has been making presentations to institutions, pnt on 6 at

Grand Metropolitan rose 5 to 446p, one analyst saying the stock was cheap, with the market beginning to take on board the fact that a substantial part of its business was not spirits, hut foods, and that there were cogent arguments for a demerger. Guinness firmed 6 to 476p. Sears relinquished 21/2 at 931/2p following critical media reports concerning the shops it sold to Facia. One analyst said that if the deal went wrong, it might increase speculation about a management shake-up at Sears.

Storehouse shed 3 to 321p. Its results last week were in line with expectations but one analyst claimed there were a lot of marketmakers with stock.

Vendome, the luxury group. strengthened 16 to 645n on speculation that Richemont. remaining 30 per cent JJB Sports leapt 45 to 900p, a move which was attributed to "buy" note from Charterhouse Tilney Securities, its

broker. A profits warning lopped almost 8 per cent off electronics components distributor Abacus Polar. The stock ended off 19 at 220p. Kalamazoo Computers surged 28 to a new 52week high of 143p following an acquisition and news of a placing to partly finance the deal.

Software group Recognition Systems bounced to a strong first day premium. Floated at 70p, the shares closed at 110p.

MARKET REPORTERS: Peter John, Lisa Wood, Jeffrey Brown.

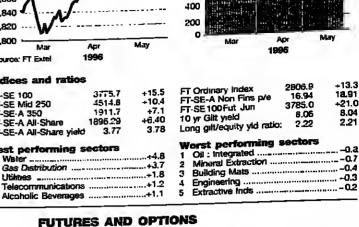
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LONDON RECENT ISSUES: EQUITIES

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TRADING VOLUME

Major Stocks Yesterday

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Provious Change

Low

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Consequently, although sector valuations have been lifted by the takeover war, there will be more to come. One argu-

Tongyang Nylon Co., Ltd.

(Incorporated on the Republic of Korea with limited liability) Notice of Bondholders' Additional Option to Redeem Bonds on 10th July, 1998

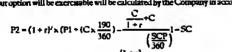
> Right to Revoke Notices of Redemption To the Holders of the Company's

U.S. \$30,000,000 31/2 per cent. Convertible Bonds due 2005

(the "Bonds")

(Redeemable at the option of the Bondholders in 1996) NOTICE IS HEREBY GIVEN that Tongyang Nylon Co., Ltd. (the "Company") has, pursuant to Condition 12(B) of the Bonds and with the agreement of Bankers Trouvee Company Limited, the trustee for the Bondsholders (the "Trustee"), amended the Terum and Conditions of the Bonds by a Supplemental Trust Deed dated 29th May, 1996 and entered into by the Company and the Trustee. The Company and the Trustee have amended the Terum and Conditions of the Bonds to: (i) provide for an additional put option exercisable on 10th July, 1998 at the prior referred to below plus accrued interest; (ii) amend the terms of the call option to extend the period during which it remains conditional upon the closing price of the shares of the Company and to incorporate protection for Bondholders against fluctuations in the Won/U.S. Dollar exchange rate, (iii) allow those Bondholders who have exercised their option to redeem Bonds on 10th July, 1996 to revoke such exercise on or prior to 5th July, 1996 in the manner described below; and (iv) allow the Company, at its option, to purchase such Bonds that are being requested to be redeemed by the Bondholders pursuant to their option.

The price at which the 1998 put option will be exercisable will be calculated by the Company in accordance w



1998 Put Price (rounded up, if necessary, to the nearest three documal places). 1996 Put Price (which equals 127.80 per cent.).

1996 Fut Price (winter equate the 1996 Put Date (10th July, 1996) to the next Coupon date.

The number of days from the 1996 Put Date (10th July, 1996) to the next Coupon date.

Short Coupon to be paid on the 1996 Put Date (on 10th July, 1998).

1y + y) to be calculated on a 360 days per year besis as described in Rule 251.1 and Rule 803.1 of the Rules and Recommendations of the International Securities Market Association (or any substitute or successor thereof) and expressed

Yield on the Reference 2 year U.S. Dollar LIBOR swap rate.

The Yield on the Reference 2 year U.S. Dollar LIBOR swap rate for the purposes of y above will be determined by Dacwoo Securio The "Yield" will be the offered 2 year U.S. Dollar LIBOR swap rate which appears on the display designated "GOTX" on the Review monitor for such other page or service as may replace it for the purpose of displaying the offered yields on such Reference Reutern monitors (or such other page or service as may replace at for the purpose of displaying the offered yields on such 2 year U.S. Dollar LIBOR swap rate) for the first quotation in the Reference 2 year U.S. Dollar LIBOR swap rate occurs.

after 10:00 s.m. (Hong Kong time) on the Determination Date. (b) "Determination Date" means 5th July, 1996.

The Company has also agreed that once Deewso Securities Co., Ltd. has calculated the percentage of principal amount at a high Bonds will be redeemed on 10th July, 1996 in accordance with the formula set out in Condition 7(D) of the Bonds, the Company will give notice to Bondholders of such percentage in accordance with Condition 14 of the Bonds as soon as reasonably possible after 5th July, 1996 but in any event, not later than the fifth London business day thereafter.

ndholders who have exercised their option in have Bonds redeemed on 10th July, 1996 and who wish to revoke such exercise in Bondholders were reserved treer open at new condensation for the plant of the plant of the condensation of the delivering written northeation to the Paying Agent with whom the relevant notice of redemption and sale was deposited at any time no later than 5:30 p.m. (local time of the city where the relevant Paying Agent is located) (at the place of the specified office, as set our below, of the relevant Paying Agent) on 10th July, 1996. The Company will be unable to redeem Bonds at its option prior to 1st January, 1999, unless the Closing Price of the Shares for each

The Company will be under to redeem bonds at its option prior to be January, 1999, limited the Loberg it has cot the Statement of each of 20 consecutive trading days, the less of which occurs not more than 30 days prior to the date upon which notice of such redemption is published: (i) is greater than 140 per cent. of the Closing Price in effect on such trading day; (ii) when converted into U.S. Dollars on each of such 20 consecutive trading days (such convention to be at the mean of the exchange are quotations by Korea Franciscal Telecommunications & Clearings Institute in Secold for buying and selling sport U.S. Dollars against Woo in respect of each such trading day), is greater than 140 per cent. of the Conversion Price in effect on such trading day converted into U.S. Dollars (such conversion to be at the time of Woo 727:40 – U.S. \$1.00) and (ii) is greater than the 1998 Put Price (as defined in Condition 7(D)) multiplied by he Conversion Price in effect on such trading day.

the Convenion Price in circu on such change say.

The term "Closing Price" for any undiring day means the last selling price or, if no sale takes place on such day, the closing bid or offered price in either case as reported by the Korea Stock Exchange for such day or, if the Shares are not listed or admirted to trading on the Korea Stock Exchange, the average of the closing bid and offered prices of the Shares for such day as furnished by an independent member firm of the Korea Stock Exchange selected from time to time by the Company for the purpose and approved by the Trustee. If member firm of the Korea Stock Exchange selected from time to time by the Company for the purpose and approved by the Trustee. If there shall occur an event giving rise to a change in the Correction Price during any such 20 trading day period, appropriate adjustments for the relevant days approved by the Trustee shall be made for the purpose of calculating the Closing Price for such days. The term "trading day" means a day when the Kotea Stock Exchange is open for business. If no price as aforesand is reported on the Kotea Stock Exchange at the purpose of function of the form as a softened in the relevant calculation and will be deemed not to have extined when ascertaining such 30 trading day period. disregarded in the reaction whether the 1998 but Price adequately compensates them for deciding not to exercise their option to require the Company to redeem as, at the option of the Company, to purchase all or some only of the Bonds held by them on the

All Bondholders contemplating taking any action in respect of the matters contained in this notice should seek independent solvious to their tax position and, if in any doubt, should also seek independent funancial advice. Copies of the First Supplemental Trust Deed which implements the above amendments are available at the spec the Paying Agents set our below.

Nices Trust Company 1 Appold Street Broadgate London ECZA 2HE

Paying Agents Bankers Trust Luxembourg S.A. P.O. Box 807 14 Boulevard F.D. Ro L-2450 Luxembo

Swiss Bank Corporated
1 Aeschenvorseadt
CH-4002 Basic

Issued by: Tongyang Nylon Co., Ltd.



Tropical bardwood trees are more valuable to logges than other trees in the

High prices for hardwoods ensure that loggest have no qualus about destroying other trees that stand in their way.

So 2 WWF project in Costs Rics is researching ways of felling 2 tree without bringing down several others around is. And how to comove it without including

2 path through the sourcending trees. If the existeress are used wisely, they can be used forever. Help WWF prove this in rainforests around the world, by witing to the Membership Officer at the



World Wide Fund For Nature (Sameth World William Frod)

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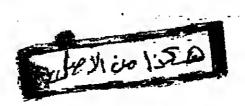
+0.4 9760.2 3750.1 3747.0 3319.4 4.00 +0.2 4504.4 4490.0 4501.4 3653.8 3.34 +0.3 4545.7 452.1 4536.9 3963.0 3.44 +0.4 1904.6 1800.0 1898.1 1850.5 3.85 2.18 14.48 78.35 1541.01 1.75 21.42 82.92 1809.43 1.80 20.21 68.03 1828.83 2.08 15.62 38.66 1594.81 FT-SE 100 FT-SE Mid 250
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FT-SE-A 350 Higher Yield 5.10 1.93 2.71 2.35 2.81 1.77 3.08 1.85 3.77 2.06 12.74 46 05 1283.67 19.89 31.55 1376.10 1841.3 FT-SE-A 350 Lower Yield FT-SE SmallCap FT-SE SmallCap ex inv Trusts FT-SE-A ALL-SHARE 24.26 27.88 1827.40 21.87 29.37 1835.14 **E FT-SE Actuaries All-Share** P/E Xd adir. Total ratio ylid Return Day's Year Div. Net May 29 chge% May 28 May 24 May 23 ago yield% cover 10 MINERAL EXTRACTION(24) 12 Extractive Industries(6) 15 Oil, Integrated(3) -D.7 3527 19 3539 00 3534.91 2853.00 3.83 -D.2 4548.87 4501 18 4463.40 3737.10 3.56 1 83 17.84 79.03 1509.48 -0.8 3552.71 3575.88 3574.65 2858.65 1.62 16 Of Exploration & Prod(15) +0.1 2483.22 2482.26 2494.19 2051.39 2.10 36.75 33.06 1496.65 20 GEN INDUSTRIALS(275) 21 Building & Construction(34) 22 Building Metts & Mercha(29) 23 Chemicals(25) -0.1 2104.65 2103.94 2104.39 1962.59 4.00 +0.2 1206.19 1208.81 1210.45 1002.12 3.41 1.90 16.32 35.72 1148.54 1.80 18.32 38.72 1149,54 1.80 20.40 20.28 1013,43 1.75 18.01 36.36 965,96 1.92 16.50 48.01 1201.57 1.72 11.96 44.62 952,90 1.67 25.12 14.16 1270,40 3.98 3.92 6.07 2.96 -0.4 1917.59 1914.35 1918.24 1925 36 -0.1 1770.88 1707.37 1711.51 1870.84 -0.1 2462.99 2459.90 2441.72 2040.87 24 Diversified Industrials(19) 25 Electronic & Elect Equip(37) 26 Engineering(71) 27 Engineering, Vehicles(13) 28 Paper, Poleg & Printing(26) 29 Technes 6 Apparel(19) -0.3 2462.07 2451.00 2449.23 1965.58 +0.6 3050.31 3047.11 3056.39 2290.92 +0.6 3050.31 3047.11 3056.39 2290.92 +0.1 2728.49 2736.13 2754.31 2977.33 +0.8 1391 39 1383.29 1384.40 1674.77 16.48 41.62 1135.56 +0.8 1391 39 1393229 1393-782 3092-54 3 93 +0.4 3556.31 3538.94 3537.82 3092.54 3 93 +1.1 2819.66 2808.05 2820.84 2745.96 4.39 +0.5 2445.83 2446.38 2452.22 2470.70 4.22 +0.5 2671.58 2667.25 2866.48 2596.59 3.70 +0.1 2082.05 2076 40 2072.78 1748 38 2.55 +0.1 500.38 5045 34 5076 39 3826.82 3 34 5.03 16.17 35 20 651.85 30 CONSUMER GOODS(8 32 Alcoholic Beverages(9) 33 Food Producers(23) 1.87 16.87 78.58 1324.27 17.90 71.72 1034.75 18.11 57.54 1115.32 34 Household Goods(15) 36 Heath Care(20) 37 Pharmaceuticols(12) 38 Tobacco(1) 14.03 55.78 1030.41 26.15 26.16 1269 84 19.95 81.18 1734.90 4409.09 +0.8 4375.21 4413.33 4252.38 4160.27 10.23 156.18 1107.53 -0.3 2537.24 2538.34 2539.10 2033.37 2.80 2.04 21.62 43.10 1327.84 -0.1 2968 13 2971.01 2968.72 2574.81 2.84 1.76 24.96 38.37 1094.49 +0.6 3168.69 3157.13 3190.37 2328 81 2.76 1.98 23.15 141.77 1717.00 +0.3 4249.76 4247.05 4253.44 2982.24 2.10 1.04 30.55 47.99 1544.25 +0.2 2028.38 2041 61 2021.82 2027.88 3.73 2.31 14.48 48.47 1304.27 +0.5 2089.29 2078.24 2084.08 1686.15 2.98 2.18 19.23 36.87 1193.81 +0.8 3163.31 3141.98 3148.02 2389.91 3.19 2.14 18.29 31.74 1525.48 -0.1 2439.96 2439.44 2440.87 1826.00 40 SERVICES (253) 42 Letsure & Hotele(23) 43 Media(49) 44 Retailers, Food(15) 45 Retailers, General(43) 47 Breweries, Pubs & Rest (34) 3182.80 2.46 1.50 1.88 3.64 48 Transport(21) 22.94 28 66 1007.72 +1.8 2372.45 2330.40 2326.20 2374.41 5.39 +0.3 2655.65 2671.51 2685.78 2252.22 5.86 +3.7 1200.57 1183.16 1182.35 2000.95 8.62 +1.2 2012.85 1987.59 1874.90 2053.34 4.29 60 UTILITIES(SS) 62 Sectricity(12) 64 Gas Distribution(2) 2.07 11.19 46.98 1024.23 2.40 8.90 137.11 1281.55 1.36 9.58 85.67 653.08 1.90 15.29 0.15 922.41 +1.2 2012.88 1987.59 1974.90 2053.34 4.29 +4.8 2175.14 2032.37 2037.38 1955.07 5 42 66 Telecommunications(7) 6.91 3.61 1236.75 +0.3 2012.93 2007 33 2006 75 1754.07 3.78 1.95 16.94 38.42 1534.45 69 NON-FINANCIALS(565) +0.3 2012.93 2007.33 200673 1/39.07 5.76 5.86 5.82 5.82 5.83 5.83 2007.33 2007.41 3.92 2.96 11.50 71.88 1263.05 +0.6 3939.46 3942.41 3938.03 3207.41 3.92 2.90 11.01 110.04 1307.81 +0.6 3826.00 3809.99 3825.56 3255.90 2.70 2.38 1845 35.38 1155.96 +0.5 1524.74 1518.87 1519.38 1352.42 5.15 3.34 7.27 47.23 1160.59 +0.2 3506.69 3893.81 3448.24 2685.65 4.25 2.24 13.13 100.72 1473.59 -0.2 2739.56 2737.53 2748.84 2025.59 3.78 1.72 19.27 29.60 1550.63 200.50 200 70 FINANCIALS(185) 73 Insurance(23) 74 Life Assurance(6) 77 Other Financial(21) 79 Property(41) +0.2 3506.69 3489.81 3448.24 2685.65 4 25 -0 2 2739.69 2737.53 2748.84 2025.59 3.78 +0.5 1631.59 1539 68 1551.03 1482.72 4.12 3229.17 -0.1 3231 38 3242.01 3242.51 2785.10 2.16 1.06 54.59 26.87 1127.07 80 BAVESTMENT TRUSTS(126) 1899.29 +0.3 1869.89 1885.87 1885.24 1632.55 3.77 2.06 16.07 37.16 1606.51 89 FT-SE-A ALL-SHARE(895) +0.1 1271.18 1268.57 1287.71 1009.76 2.70 2.20 21.01 13.78 1330.06 +0.1 1283.18 1280.04 1278.70 1004.35 2.90 2.38 18 08 14.92 1343.24 FT-SE-A Fledgling FT-SE-A Fledgling ax Inv Trusts Hourly movements 19.00 11.00 12.00 13.00 14.00 15.00 16.10 High/day Low/day Open 9.00 ET-SE 100

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■ FT-SE Actuaries 350 Industry baskets Open 9.50 10.00 11.00 12.00 13.00 14.00 15.00 16.10 Close
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Additional information on the FT-SE Actuaries State indices is published in Saturday Issues.

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HERSDAY MAY MORE

FINANCIAL TIMES THURSDAY MAY 30 1996 STOCK +/- High Lew Tell

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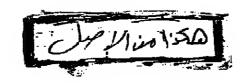
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Search for direction leaves Dow volatile

Wall Street

US stocks spent a volatile morning after Tuesday's fall, searching for direction, writes Maggie Ürry in New York.

The Dow Jones Industrial Average, which had fallen by as much as 23 points by mid-morning, railied then slipped back once again. By 1 pm the Dow was just below 5,700, off 9.98 at 5,699.69.

The Standard & Poor's 500 held on to a rise of 0.49 at 672.72 by midsession. However, the American Stock Exchange composite rallied less strongly was still 0.69 lower at 610.08. Similarly, the Nasdaq composite was off its low, but still 3.45 weaker at 1,232.85.

Volume on the NYSE was relatively light at 187m shares. Dealers said that a number of programme trades hit hlue chips in the morning, but the selling pressure had eased by lunchtime

The sudden death of Mr Jerry Junkins, chairman and chief executive of Texas Instruments, did not affect the shares, which gained \$\% to \$54%, continuing the strength they had shown on Tuesday,

group announced that it would start shipping a new line of pentium based net servers in

Meanwhile, shares of Sun Microsystems fell \$2 to \$62 in spite of a series of announcements for new uses for Sun's Java technology (Java is a language used for Internet appli-

Sun said that it had agreed an alliance with Taiwan to allow companies there to use Java. It also said that it would develop a new line of Java chips, and that four of the people responsible for developing Java were forming a new com-pany which would extend the language's uses.

Also in the technology area, Dell Computer announced an increase to its share buyback programme from 12m to 16m shares, and said that it had already bought 3.5m shares and options to buy another 5.3m. The shares rose \$11/4 to

General Nutrition, the health products retailer, plunged \$41/2, or 24.3 per cent, to \$14, reacting to a profits warning made after the market had closed on Tuesday. The group said that second-quarter earnings would be around 19 cents, against fore-

and fourth-quarter earnings would be slightly below estimates as well.

Canada

Toronto was steady as golds flattened out again, the TSE 300 composite index easing 0.79 to 5,218.52 at midday and volume coming back from 53.84m shares to 41.15m.

Financials reflected good bank results, Bank of Novia Scotia gaining 80 cents at C\$33.10 after its record second quarter net profits.

Seagram, in contrast, fell 90 cents to C\$47.50 as earnings, adjusted to exclude its former stake in Du Pont, fell from 16 cents a share to 6 cents for the quarter to April 30.

SOUTH AFRICA

Equities ln Johannesburg moved to their third consecu-tive closing bigh as better than expected money supply and CPI data for April encour aged investors. The overall index rose 17.4 to 6,767.2, while the industrials index gained 44.9 at 7,912.3 and Among the main movers, SAB

Interest rate worries hit Swiss financials

FT-SE Actuaries Share Indices

brokers worrying that a drop in domestic bonds implied the prospect of higher interest rates. Rumours about a possi-ble downgrading of SBC and CS Holding by a rating agency also contributed to negative sentiment as the SMI index

lost 25.4 at 3.558.4. SBC lost SFr4.50, or 2 per cent, at SFr221, UBS registered fell SFr5 to SFr254, and Zurich Insurance shed SFr4 to SFr324 although it talked ahout double-digit growth in profits, until and including 1999. Among second liners, Merkur registered leapt SFr12 to SFr268 as tha retail and consumer goods conglomerate

forecast recovery in 1996. PARIS, unsettled by technical activity, was hit by profittaking and the CAC-40 index fell 15.80 to 2,117.10. Since the beginning of the year the index had risen by more than 14 per

cent. Turnover was FFr4.2bn. Bouygues, the construction company, was lifted after a number of brokers raised their recommendations on the stock. partly based on yesterday's launch of a new mobile telephone service, and partly on a feeling that the shares were now trading at a discount to the market. The stock ended FFr9 higher at FFr549.

the session's leaders, np 35 centimes or 5.2 per cent at

A rally in the property sector

profits were taken later, bar-

gain hunting by domestic insti-

Volume was 483m shares,

against 334m. The Topix index

of all first section stocks rose

5.63 to 1,680.86 and the Nikkei

300 firmed 0.90 to 310.40.

Advances led falls by 622 to

421, with 173 issues unchange In London the ISE/Nikkel 50 index put on 4.08 at 1,467.32. Trading centred on property issues ahead of the auction of the large plot of land in central Japan National Railway, which

was broken up in 1987.

Investors, hoping that the property sale could spur emand for new development

tractors were also chased, with

High-technology stocks lost ground on profit-taking, for-

eign brokers leading the selling: Hitachi fell Y30 to Y1,010 and Fujitsu Y10 to Y990. Consumer electronics companies were mixed, Matsushita Electric Industrial rising Y20 to

Y1,860 and Sony dipping Y40 to The yen's decline helped shipping: Nippon Yusen rose Y4 to Y628 and Mitsui OSK Lines gained Y8 to Y372.

In Osaka, the OSE average moved ahead 159.25 to 23,334.49 in volume of 52.7m shares.

Strong speculative demand, selective foreign fund buying

and the argument that equities

Roundup

tutions provided support.

ASIA PACIFIC

FF17.10, after the cross-Channel operator made a number of announcements, including a revised pricing structure for Le

Shuttle services. The company added that it did not consider that it would be impossible to reach a draft agreement with its 225 creditor banks on a deht restructuring package by the end of June. FRANKFURT daydreamed

about a repo rate cut, failed to get it and resorted to pushing vulnerable stocks around as the Dax index fell 10.62 to an Ibis-indicated 2.548.53.

Turnover stayed low at DM6.5bn, against DM6.1bn, but it was positively tiny in Krupp Hoesch and Kloeckner Werke. which lost DM5 at DM242 and DM1 at DM54 respectively.

The two engineers had been weaker earlier in the afternoon. Kloeckner falling 9 per cent at one point: Ms Lynn Reinhardt at BZW in Frankfurt sald that with KHD still suspended, following Tuesday's news of crippling losses at one subsidlary, there had been speculative reaction elsewhere in the engineering sector.

However, Preussag was husy as it dropped DM10.50 to DM398.50. Here, said Ms Reinbardt, there had been a rumour that first-half results were imminent: covering October to March, a bad time for steel prices, they were thought likely to be poor.

THE EUROPEAN SERIES Open 10.30 17.00 12.00 13.00 14.00 15.00 Close Hourty changes FT-SE Eurotrack 100 1585 45 1694 45 1695 03 1695 53 1693 92 1992 77 1692 62 1692 00 FT-SE Eurotrack 200 1731 54 1732 04 1732 64 1732 50 1732 37 1731 46 1731 10 1732 47 May 22 May 21 May 28 May 24 May 23

AMSTERDAM could not hold on to an early high as profits were taken following the market's strong recent run. The AEX index, which rallied to 570.09 at one stage, closed off 1.38 at 566.72.

Fortis Amev fell Fl 4 to FI 130. subject to profit-taking although the insurer attracted a number of upgrades following the bealthy first-quarter group data which was released on Tuesday. ING, for instance, said that the 23 per cent increase in first-quarter profit had laid the foundation for double-digit growth over the full year.

Nutricia, which fell 3 per cent on Tuesday in reaction to fears that its baby milk products might be investigated as part of a UK government enquiry, lost 30 cents to FI 190.20, after a high of FI 182.

The company, which sells Cow & Gate and Milupa hrands in the UK, confirmed yesterday that its infant formulae have been tested for traces of phthalates, but said that the levels did not exceed European

Union safety standards. ING finished 90 cents up at FI 136.70, after a session's high of Fl 138.80, ahead of the bank's first-quarter figures due out

MILAN saw the return of overseas interest as institutional buyers became captivated by Eni, the oil and chemicals group, which rose L241 or 3.3 per cent to L7,495. The Mibtel index gained 1 per cent to L10,733, while the Comit was up 0.15 at 669.81.

HELSINKI reacted to Wall Street's overnight losses, took profits, and pushed the Hex index down 30.32, or 1.5 per cent, to 2,014.64, Nokia A losing DM6.40, or 3.3 per cent, at FM188.60. The paper machine maker

Valmet reported higher than forecast four-month earnings but closed just 50 penni up at FM75 after a record FM80.

VIENNA encountered some profit-taking, having attained a

21 month high on Tuesday, but many traders felt that the decline was temporary and in election dise to detend that the underlying trend

remained strong. The ATX index lost 3.14 to 1,139.37. An exception to the day's fortunes was VA Stahl, the steel maker, which rose Sch6 to Sch387, a record peak.

sian democrac

HSBC James Capel in London, which has a buy recommendation on the stock, said the group was a beneficiary of having stable contract prices, compared with many other suppliers which were linked to fluctuations in the spot market. In addition, Stahl was able to obtain its raw materials relatively cheaply from sources in eastern Europe, thus cutting transport costs. Since its listing in October 1995, the stock had riseu 18 per cent.

ISTANBUL climbed by 4 per cent as sentiment took an upward turn after Mr Mesut (ilmaz, the prime minister, said that he would not resign. The composite index gained 2,338.36 at 60,414.81.

WARSAW managed to claw way forward, baving fallen for the previous six sessions, but many analysts felt that the gain was only temporary.

The Wig index rose 20.2 to 11.875.9 as turnover increased hy 4.3 per cent to 89m zlotys.

Written and edited by William

Profits taken in Latin America

Profit-taking was much In evidence throughout the region early yesterday. In MEXICO CITY the IPC index was off 20.60 to 3,294.75 at midsession. SAO PAULO, which on Tuesday had risen by 1.5 per cent, was another market in decline, and by midday the Bovespa index had lost 330.28 to 56.728. Most of the session's profit-taking was in

Telebras, which had gained nearly 3 per cent on

Tuesday. Telebras was responsible for 57 per

cent of the trading volume. BUENOS AIRES was slightly weaker, with the

Merval index down 0.57 at 610.50. In CARACAS the IBC index had surrendered 53.27 or 1.1 per cent to 4,486.02 by early afternoon. The market slipped 0.3 per cent on Tuesday following nine successive record highs,

	menging	MARKE 15		KLY INVEST			
			Dollar terms			ocal currency	
Market	No. of stocks	May 24 1996	% Change over week	% Change on Dec '95	May 24 1996	% Change over week	% Change on Dec '96
Latin America	(247)	532.36	-0.1	+12.9			
Argentina	(31)	925.21	-1.9	+15.5	567,294.59	-1.9	+15.4
Brazil	(68)	349.13	-0.3	+14.4	1,301,66	-0.2	+17.2
Chille	(43)	715,39	-1.9	-4.4	1,168,35	-2.2	-4.2
Colombia ¹	(15)	629.36	-0.6	+5.2	1,191,78	-0.3	+13.6
Mexico	(65)	558.93	+1.5	+23.3	1,784.03	+1.7	+18.5
Peru?	(20)	208.13	+1.6	+5.9	307.03	+1.7	+10.5
Venezuela ^s	(5)	541,24	+7.6	+61.9	5,832,33	+6.6	+123.4
Astu	(631)	266.62	-O.B	+14.8			
China ⁴	(23)	58.03	+1.2	+7.3	60.99	+1.2	+7.3
South Koreas	(145)	123.53	-3.6	-1.9	126.90	-3.4	1.2
Philippines	(35)	313.41	+2.3	+20.8	396.25	+2.4	+20.5
Talwan, China		134.50	-2.2	+19.3	138.50	.1.5	+19.9
India ⁷	(76)	99.97	-2.9	+24.4	124.62	-2.2	+24.2
Indonesia*	(44)	126.31	-1,0	+15.2	159.99	•1.0	+17.4
Melaysia	(123)	321,41	-0.4	+18.5	295,43	-0.4	+16.3
Pakistan*	(25)	290.17	+0.9	+19.6	459.17	+0.9	+21,6
Sri Lankard	(5)	109.61	-0.4	+5.3	131,56	-0.3	+8.8
Theiland	(72)	370.31	-0.8	-1.5	372.45	-0.8	-0.9
Euro/Mid Eas		136.85	-2.5	-3.4	4.4		
Czech Rep	(5)	74.53	-0.9	+24.2	68.56	-0.3	+28.9
Greece	(47)	241.54	-1,9	+0.0	398.98	-1,1	+3.1
Hungary ⁿ	(8)	162.30	-1.4	+64.9	292.50	-0.4	+80.8
Jordan	(8)	175.17	-0.1	-5.1	261.59	-0.1	-5.1
Poland	(22)	626.19	-8.3	+46.9	1,061.57	-7.4	+60.3
Portugal	(26)	124.43	+1.3	+7.5	135,47	+2.1	+14.0
South Airlea	(63)	229.71	-1.7	-11.0	206.92	-0.7	+6.5
Turkey	(54)	122.78	-8.9	+17.5	4.530.72	-7.3	+51.6
ZImbabwe ⁿ	(5)	387.52	+2.0	+41.1	560.99	+2.0	+48.8
Composite	(1116)	302.03	-1.0	+9.5			

Indices are calculated at end-week, and weekly changes are porcentoge movement from the previous Frictay. Base date: Dec 1989-100 except the which are (I)Fab 1 1991; (2)Dec 31 1992; (3)Jan 5 1992 (0)Dec 31 1992; (3)Jan 3 1992; (6)Jan 4 1997; (7)Hov 6 10Hz; (9)Oep 26 1990; (6)Mar 1 Dec 31 1992; (7) INDic 31 1992; (7)Dec 31 1992; (1)Dec 31 1992; (4)Dec 31 1992; (6)Dec 31 1992; (7)Dec 31 1992; (7)D

FT/S&P ACTUARIES WORLD INDICES

Property auction improves activity in Japan

had been heavily oversold took BOMBAY up 2.9 per cent, the Tokyo

lifted trading as the Nikkei average broke through the The shortlived, minority Hindu nationalist government 22,000 level, writes Emiko Teraresigned on Tuesday. Brokers said that the market attracted The 225 index rose 76.97 to bectic sbort-covering ahead of 22,021.50 after moving between 21,877.21 and 22,145.20. Technithe weekend swearing in of the United Front government, a loose, centre-left coalition. cal buying supported equities in early trading and, while

104.44 at 3,740.45.

SEOUL saw selling across the board, export-driven sectors falling steeply as the composite index relinquished 11.89 to 894.32 after the release of worse than expected industrial output and current account

BSE 30-share index adding

The chipmaker Samsung Electronics fell by its daily ever, was a newcomer, the

lower at Won67,300, pressured by falling toternational prices of memory chips.

SINGAPORE and KUALA LUMPUR extended recent themes: Singapore Telecom topped the active list for the third consecutive day as it rose 2 cents to S\$3.92, although the Straits Times Industrial index declined 22.43 to 2.334.42; and Pacific Bank gained another 50 cents to M\$12.90 as the Rating Agency Malaysia put its short term rating on hold ahead of

the bank's proposed merger with OCBC's Malaysian unit. The KLSE composite index ended 4.03 lower at 1,137.95. This market's star turn, how-

limit again, closing Won4,200 brick and tile maker Kia Lim, which finished at M\$9.25, compared with its offer price of MS1 90

> WELLINGTON continued to lose snpport as the NZSE-40 capital index retreated 4.87 to 2,042.09, jnst ahead of the year's low of 2,041.21 which had been touched in late January. Turnover was light at

Radio Pacific appreciated 32 cents to NZ\$3.52 on rumours of takeover bid.

BANGKOK slipped back as worries emerged about the future direction of the economy under the newly appointed finance minister. There were also rumours that the governor of the central

bank might resign and the SET index receded 6.00 to 1.302.20 in volume of 66.2m shares valued at Bt4.9bn

There was little acclaim for good first-quarter profits from Siam Cement. The stock moved forward Bt12 to Bt1,204, Siam City Cement, which reported a 39 per cent decline in profits. was Btl2 weaker at Bt336.

MANILA, encouraged by expectations of strong economic growth data, recovered from Tuesday's profit-taking. The composite index finished 37.30 ahead at 3.285.06.

Print Grand

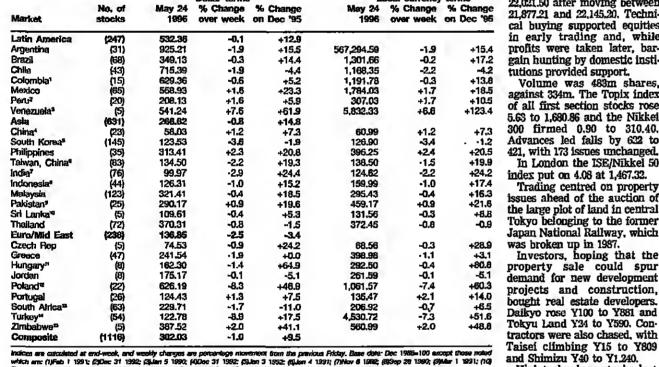
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There were rumours that first-quarter GNP statistics. due to be released this morning, would show a rise greater



Emerging markets have outperformed US Treasury bonds since the beginning of 1996

Emerging markets have outperformed US Treasury bonds since the beginning of 1996 and, in spite of expectations that US interest rates will rise during the third quarter of the year, Paribas Capital Markets believes that strong economic fundamentals should see this investment sector continue to do well. In a strategy report out earlier this week. Paribas also notes that a key event this year has been the successful issue of a 30-year Mexican global bond which was swapped for Brady bonds. "The deal signals the beginning of a fundamental change for emerging markets," says Paribas, "and its success and that of the 15-year D-Mark bond launched by Argentina in early May, proves there is demand for uncollateralised long term emerging market risk."

• Egypt has attracted a positive recommendation from Robert Fleming Securities this week. The broker suggests that on a price/earnings ratio of eight times 1995 earnings, Egyptian equities appear very inexpensive in comparison to other emerging markets. In addition, the market is about to undergo one of the largest privatisation programmes in the Middle East, and has the lowest level of foreign investment among emerging markets as a group. "The expected inclusion in the IFC index, privatisation, healthy corporate earnings growth, and attractive valuation, are already attracting foreign investment, which in turn will create upward pressure on prices," says Fleming.

• Brazil has been selected by Bear Stearns as its favourite market in Latin America for the rest of the year. The US investment bank said that it was raising its year-end target for the Bovespa index to 62,500, while the index could move through the 75,000 level during 1997. "The key short term risks are a further deterioration of the global financial market background, additional setbacks in the political reform process, and a disappointment over the pace of economic growth in 1996," notes Bear Stearns.

ASTRA

The American Depositary Shares

representing

A and B Shares

Astra AB

have been listed on

The New York Stock Exchange Symbols: A-A Shares **AAB-B Shares**

The undersigned acted as co-financial advisor to Astra AB.

MORGAN STANLEY & CO.

May 28, 1996

| Index | Inde 142.04 130.97 144.37 117.28 112.18 202.59 133.78 134.03 115.26 289.17 789.72 56.54 105.29 889.36 202.97 53.98 189.30 2243.34 124.23 124.23 124.23 124.23 125.44 125.44 136.42 136.42 137.98 166.51 153.54 169.24 137.50 131.51 237.61 156.83 157.12 350.72 222.41 66.29 124.15 448.24 1054.33 1237.94 63.28 198.48 337.54 237.94 198.48 337.54 198.48 198.57 19 205.94 201.82 189.84 185.04 210.91 205.40 168.80 165.43 164.14 180.86 296.04 290.11 196.58 192.65 194.76 190.89 167.74 164.39 277.30 271.75 82.37 90.73 154.15 151.06 556.37 57.19 1308.86 1282.63 295.04 298.13 79.07 77.49 246.37 241.44 421.02 412.59 342.85 174.59 342.87 341.56 178.18 174.59 348.57 341.56 178.18 174.59 348.57 341.56 178.18 174.59 348.57 341.56 178.18 176.18 230.34 225.73 276.24 270.71 173.15 154.93 313.17 240.03 194.89 150.34 135.12 432.82 249.87 95.83 105.90 535.46 9535.46 105.93 221.57 273.13 340.44 174.04 174.04 174.04 175.90 226.17 273.74 4.24 1.83 4.04 2.07 2.34 1.87 2.59 1.82 3.43 2.29 0.72 1.67 4.51 2.05 1.29 2.12 3.19 2.29 1.82 1.82 1.83 4.83 2.15 171.75 142.67 205.47 115.10 126.51 183.26 130.53 200.14 127.46 144.97 168.43 171.73 221.20 212.12 252.40 141.34 186.41 184.72 211.35 203.94 240.11 285.75 302.70 114.01 134.24 116.41 177.01 125.33 147.56 142.26 190.57 183.29 215.81 268.66 269.33 129.39 182.34 251.08 296.68 126.26 148.66 146.75 181.55 144.29 183.28 179.72 213.05 167.77 167.52 234.62 246.49 252.32 207.87 289.63 187.51 184.14 269.30 190.10 291.19 185.51 211.99 246.49 247.27 203.51 293.83 184.16 180.45 263.91 186.29 285.36 181.80 207.75 241.55 -0.9 0.3 -0.1 0.8 0.6 -0.9 0.4 0.1 0.5 -0.1 2.15 3.03 2.23 1.17 2.05 2.18 2.46 3.03 2.05 1.90 2.50 -D.4 208.74 145.21 171.40 183.90 -D.1 2.09 213.70 209.42 145.45 171.25 184.06 214.70 183.83